

**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2010



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**FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 30 JUNE 2010**

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# **Dihlabeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2010

## **GENERAL INFORMATION**

### **Members of the Executive Committee:**

Councillor T M H Mofokeng	Chairperson of the executive committee and financial portfolio committee
Councillor T J Mkwani	Chairperson of community services portfolio committee
Councillor M J Tshabalala	Chairperson of the public works portfolio committee
Councillor M M Radebe	Chairperson of corporate services portfolio committee
Councillor M A Mashinini	Chairperson of housing services portfolio committee
Councillor DM Mofokeng	Chairperson of the local economic development and tourism portfolio committee
Councillor C C Harrington	
Councillor D Stevens	

### **Grading of Local Authority:**

Grade 8

### **Auditor:**

The Auditor-General South Africa

### **Bankers:**

ABSA Bank

Branch 502-233

Account number

4052898966

### **Registered Office:**

Civic centre

PO Box 551

Telephone: 058-303 5732

Muller street

Bethlehem

Fax: 058-303 5076

Bethlehem

9700

### **E-mail address:**

info@dihlabeng.co.za

### **Municipal Manager:**

Mr. Thabiso Tsoaeli

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Supporting Chief Financial Officer:

Mr. Raymond Provis

## Members of the Dihlabeng Local Municipality

<u>Ward No:</u>	<u>Councillor</u>
1	T J Tshabalala
2	S Msimanga
3	HE Mokoena
4	MJ Vilikazi
5	T M Mofokeng
6	M J Tshabalala
7	N C Bukhali
8	T M H Mofokeng
9	R P Mofokeng
10	CC Harrington
11	M A Mashinini
12	SE Mosia
13	CP Changube (Resigned 5 May 2010)
14	L J Wanzi
15	TJ Makwani
16	SM Jacobs
17	DE Malan
18	B D L Venter
19	M S Maseko
PROP	M J Hatla
PROP	M J Khetsi
PROP	J G Kriek
PROP	L J Lemako
PROP	N E Mkhwanazi
PROP	M J Mokoena
PROP	D M Mofokeng
PROP	M H Mofokeng

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PROP	P H Motsoeneng
PROP	MA Mokoena
PROP	V D Mzizi (Resigned 31 May 2010)
PROP	MA Noosi
PROP	MK Mofokeng
PROP	TP Ramaele
PROP	I Ntakane
PROP	J J H Pienaar
PROP	M M Radebe
PROP	L A Ramela
PROP	D Stevens

## Mayor:

Councillor TMH Mofokeng


## Speaker:


Councillor M A Noosi

## APPROVAL OF FINANCIAL STATEMENTS:

I am responsible for the preparation of these annual financial statements, which are set out on page 17 to 77 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in Note 24 and 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

  
Municipal Manager (Accounting Officer)  
Thabiso Tsoaeli

  
Supporting Chief Financial Officer  
Raymond Provis

# **Dhlabeng Local Municipality**

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## **Index**

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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### **Abbreviations**

<b>COLD</b>	<b>Compensation for Occupational Injuries and Diseases</b>
<b>CRR</b>	<b>Capital Replacement Reserve</b>
<b>DBSA</b>	<b>Development Bank of South Africa</b>
<b>SA GAAP</b>	<b>South African Statements of Generally Accepted Accounting Practice</b>
<b>GRAP</b>	<b>Generally Recognised Accounting Practice</b>
<b>HDF</b>	<b>Housing Development Fund</b>
<b>IAS</b>	<b>International Accounting Standards</b>
<b>IPSAS</b>	<b>International Public Sector Accounting Standards</b>
<b>MFMA</b>	<b>Municipal Finance Management Act</b>
<b>MIG</b>	<b>Municipal Infrastructure Grant (Previously CMIP)</b>

## ACCOUNTING OFFICER'S REPORT

### 1. INTRODUCTION

The 2009/10 financial year posed many challenges and obstacles which had to be addressed and accommodated by the limited financial and other resources.

The budget and the IDP are aligned with the vision and imperatives of national government, which are to address service delivery backlogs and the following strategic areas, were focussed on during the 2009/10 budget:

- The eradication of backlogs and investment in infrastructure for basic services and for growth
- Economic growth and development that is shared and creates sustainable jobs
- Building safer, more secure and more sustainable communities
- The deepening of democracy
- Financial viability and management of resources
- A caring and effective government
- Institutional capacity and transformation

To budget for improved service delivery and then subsequently realising operational efficiency while it is also ensured that the deliverables are attained in a sustainable manner, has been a huge challenge during the 2009/10 financial year.

The challenge of addressing unlimited needs within the constraints of limited resources has necessitated a change in the way we do business to ensure that we stretch our resources to the maximum.

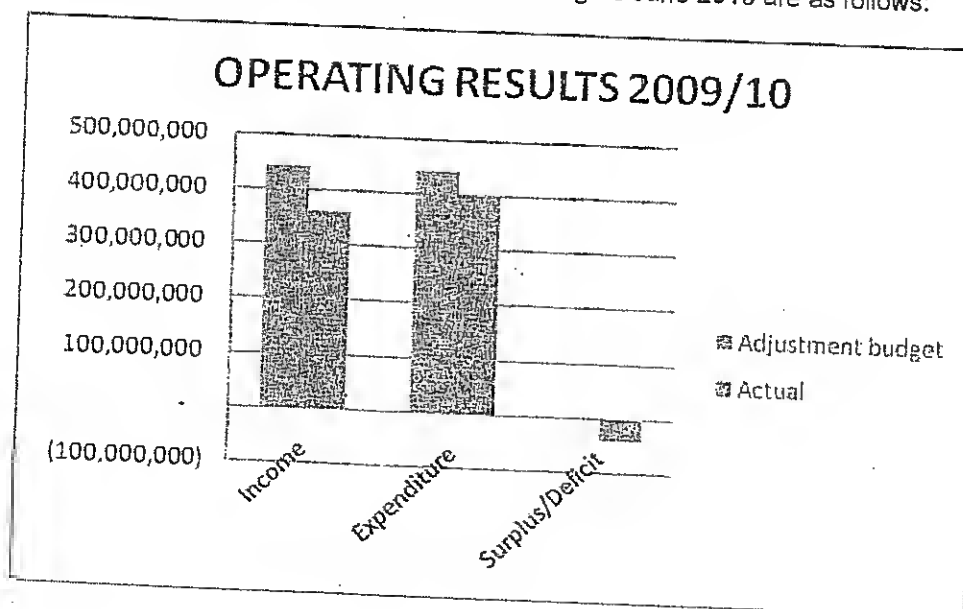
### 2. REVIEW OF OPERATING RESULTS

The 2009/10 budget of Dihlabeng was approved by Council on 28 May 2009.

#### 2.1 General

Details of the 2009/10 operating results and classification of revenue and expenditure are included in the Statement of Financial Performance. A graphical presentation of the operating results is shown in the graph below:

The overall operating results for the year ending 30 June 2010 are as follows:



# Dihlabeng Local Municipality

## Annual Financial Statements for the year ended 30 June 2010

Description	Original Budget 2010 R'000	Adjusted Budget 2010 R'000	Actual 2010 R'000	Variance Actual/ Adjusted Budget %	Actual 2009 R'000
<b>REVENUE</b>					
Operating revenue for the year	354,532	444,035	361,632	(19%)	322,460
	354,532	444,035	361,632		322,460
<b>EXPENDITURE</b>					
Operating expenditure for the year	354,471	443,974	412,672	(7%)	261,950
Fair value adjustment	-	-	1,001		(585)
Gain on disposal of assets			(10,252)		(162)
Accumulated surplus / (deficit)	61	61	(41,789)		61,257
	354,532	444,035	361,632		322,460

The actual net expenditure of the Municipality reflects an increase of 57,5% while the actual revenue of the Municipality has increased by 12,1 % since 2008/9.

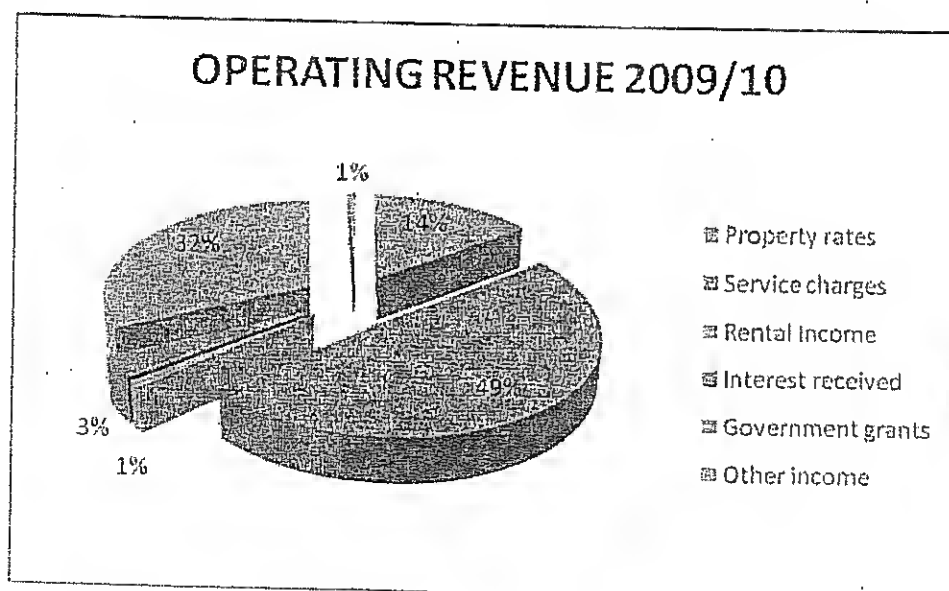
The largest increase on revenue occurred on service charges and government grants.

The largest increase on expenditure occurred on bulk purchases, the provision for debt impairment, salaries and general expenses.

### 2.2

#### Operating Revenue

The following graph indicates a breakdown of the largest categories of revenue.

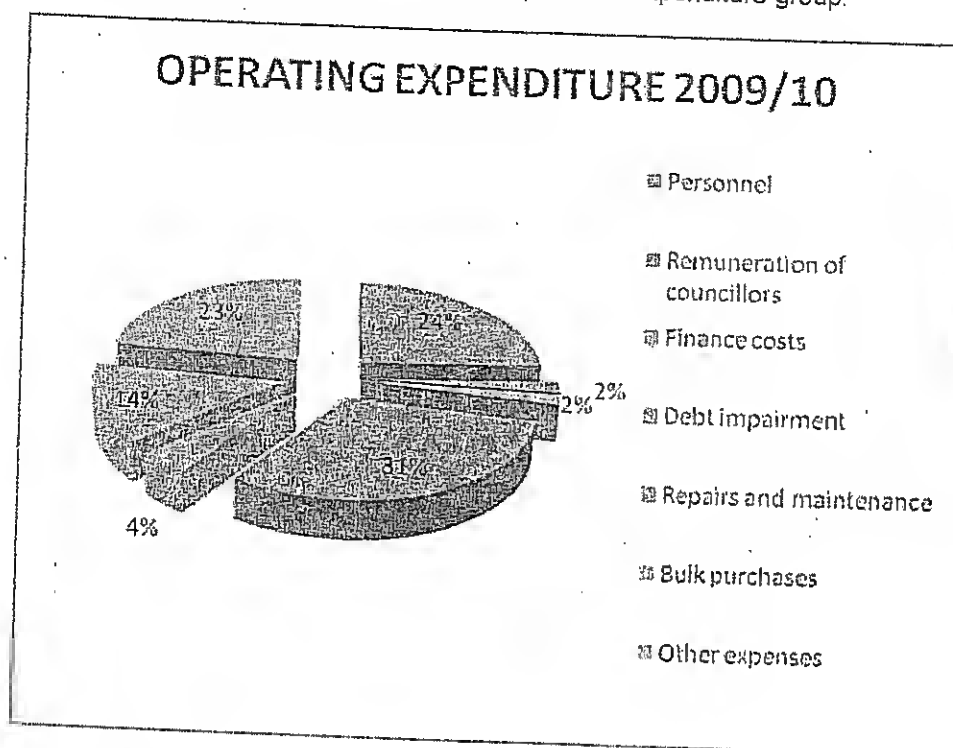


# Dihlabeng Local Municipality

## Annual Financial Statements for the year ended 30 June 2010

### 2.3 Operating expenditure

The graph below indicates the break down per main expenditure group.



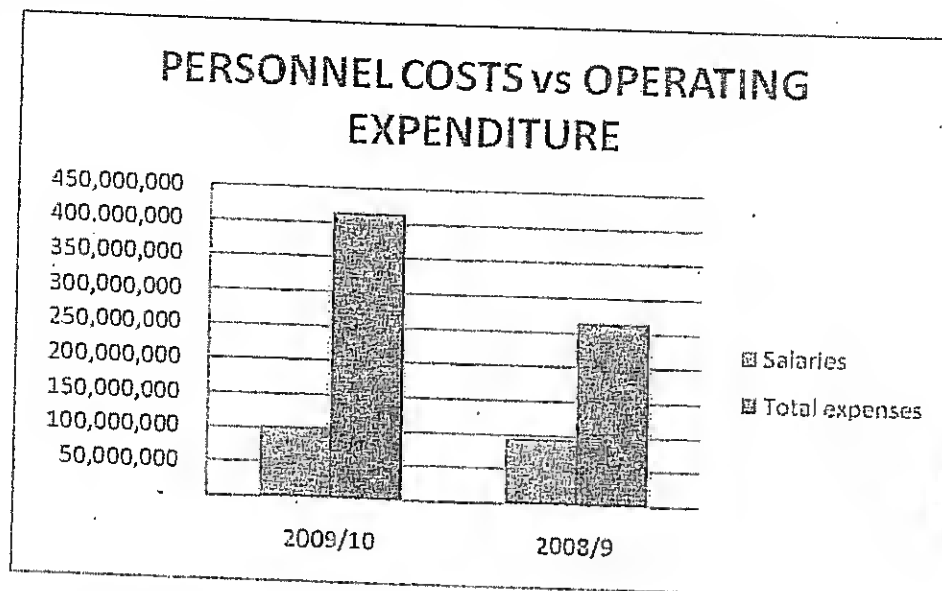
### Remuneration

The actual expenditure on remuneration expressed as a percentage of the total expenditure shows a drastic decrease from 35,13 % in 2008/9 to 24,46 % in 2009/10. The major cause of this decrease was as a result of the debt impairment of R 128 million. These figures have a large impact on the going concern capabilities of the municipality. The total remuneration cost and the allocation of individual items in a remuneration package differ from municipality to municipality for example; certain municipalities are more contract intensive whilst others might be more labour intensive. The target for remuneration as a percentage of expenditure is 30%.

Description	2009/10 R'000	2008/9 R'000
Total operating expenditure	412,672	261,950
Total operating revenue	361,632	322,460
Employee remuneration	100,929	92,012
Ratio: % of total expenditure	24,46%	35,13%
Ratio: % of total revenue	27,91%	28,53%
% in/decrease in remuneration	9,69%	(1,75%)



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2.4

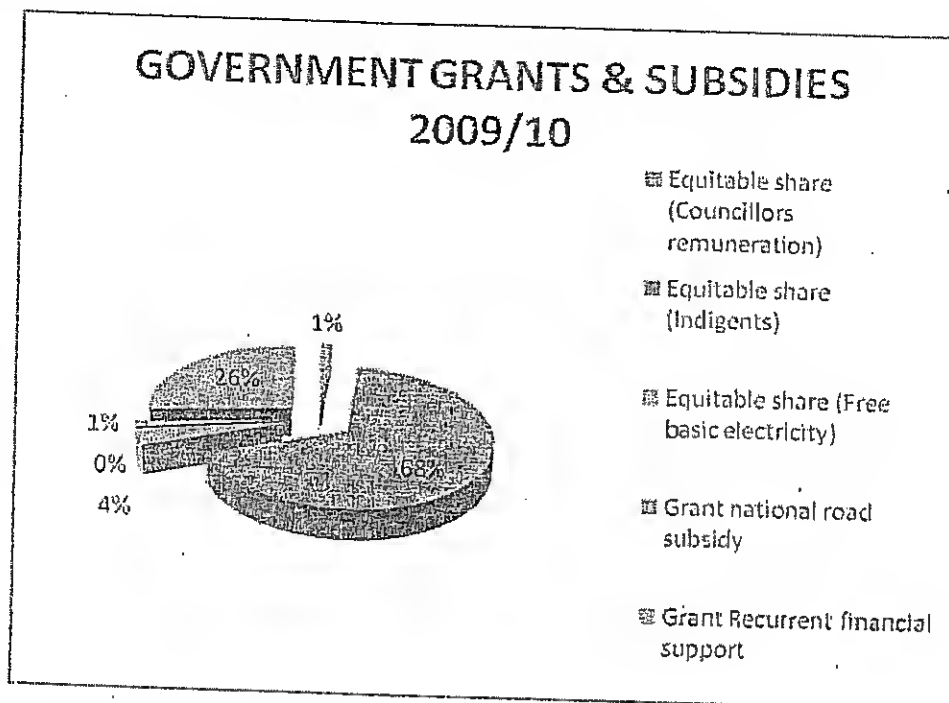
**Government grants and subsidies**

The following table and graph show the amounts received in terms of grants, contributions and subsidies from the Central Government and the Free State Provincial Government, which amounts have been included in the total revenue:

Description	2009/10	2008/9
Equitable share (Councillors remuneration)	1,620,045	1,963,447
Equitable share (Indigents)	78,154,369	60,866,911
Equitable share (Free basic electricity)	4,050,112	2,617,929
Grant national road subsidy	17,100	17,100
Grant Recurrent financial support	1,250,000	570,298
MIG	30,450,000	19,825,900
	<b>115,541,626</b>	<b>85,861,585</b>

**Restatement:** The amount for the equitable share indigents has been corrected from R 60,886,847 to R 60,866,911. The "Grant Fire Brigade Services" of R 64 caused this correction.

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3.

**DEBTORS**

The following is an indication of the effectiveness of credit control measures, as well as the ability to convert debtors into cash:

Description	2009/10	2008/09
Debits levied : Consumer debtors	228,036,184	214,500,446
Balance on 1 July	175,207,222	213,432,524
Balance on 30 June	204,230,305	175,207,222
Average balance	189,718,764	194,319,873
Days in the financial year	365	365
Turnover: Number of days	304	331
Turnover: Number of times (levies/average balance)	1.20	1.10

From the table it is clear that, the number of days to recover debt decreased from 331 to 304 days since 2008/9, this is largely due to debtors to the value of R 28 million that was written off in the 2009/10 financial year. This high turnover has serious implications on the cash flow of the Municipality. A collection rate calculated on the total levies for a period compared to the total payments received during the same period is used to measure revenue recovery. The credit control by-law and the actions taken in terms of the by-law started producing better results. The increase in debtors has an impact on the going concern of the municipality.

**Restatement:** The debtors age analysis has not been included in this financial years report.

# Dhlabeng Local Municipality

## Annual Financial Statements for the year ended 30 June 2010

### 4. CAPITAL EXPENDITURE AND FINANCING

The Municipality's original approved Capital Expenditure Budget for 2009/10 amounted to R 50,5 million and was accepted by National Treasury. This Capital Budget was amended by means of an adjustments budget approved by Council to R 58,5 million in total.

Of these funds the MIG funding of R 30,23 million was spent in the 2009/10 financial year, due to financial constraints only R 25,49 million was spent from own funding on capital projects.

#### Conclusion:

When comparing the actual expenditure to the budgeted expenditure the financing source of capital projects plays an important role. The funding from own sources can largely influence the following aspects:

- The raising of loans
- The cash flow of the Municipality

### 5. ACCOUNTING RATIOS

#### 5.1 Current asset ratio

This ratio mainly involves the financial resources used in the operating cycle of a local authority. Operating capital represents the surplus of current assets over current liabilities. This is a useful indicator when determining the ability to fund operating expenditure. This ratio measures the extent to which the current liabilities are covered by the current assets. A larger coverage means a lower risk since short-term debt can be paid out of short-term assets. The following table shows the calculation of the operating capital ratio:

Description	2009/10	2008/09
<b>CURRENT ASSETS:</b>		
Cash	59,066	45,130
Inventory	886,431	2,918,840
Debtors	88,764,476	159,873,484
Other financial assets	354,700	421,371
Other receivables from exchange transactions	2,275,972	604,382
Total	92,340,645	163,863,207
<b>CURRENT LIABILITIES:</b>		
Creditors	59,653,850	35,812,121
Unspent conditional grants and receipts	9,716,000	2,699,000
Other financial liabilities	3,971,956	4,048,038
Taxes and transfers payable	13,085,561	1,851,628
Overdrawn cash book balance	25,448,041	47,447,860
Total	111,875,408	91,858,647
Net Operating Capital	(19,534,763)	72,004,560
Current asset Ratio	0,83 : 1	1,78 : 1

## Dihlabeng Local Municipality

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The ratio decreased significantly since 2008/9. This is due to the fact that the current liabilities increased with 22% whilst the current assets decreased with only 44%. The decrease in current assets can mainly be ascribed to the increase in debtors impairment. The increase in current liabilities mainly lies with the increase in the creditors balance but is assisted with a decrease in the cash book balance.

The private sector sets a ratio of 2:1 as being acceptable, however a norm for local government is currently not available.

**Restatement:** The prior year amounts have been restated due to corrections made in the 2008/9 financial statements and to the report.

5.2

### Quick asset ratio (Acid test)

This ratio is a more accurate test of a local authority's ability to settle its short-term debt. When calculating this ratio, only assets that can be converted into cash are taken into account. Since material and stock are for the local authority's own use and are not for sale, they are not included in the calculations. The private sector sets a ratio of 1:1 as being acceptable. The figures that follow reflect the Municipality's quick asset ratio for the following years:

Description	2009/10	2008/09
Current assets	92,340,645	163,863,207
Less: Inventory	886,431	2,918,840
Total	91,454,214	160,944,367
Current liabilities	111,875,408	91,858,647
Quick asset ratio	0,82 : 1	1,75 : 1

**Restatement:** The amounts for the 2008/9 financial year have been restated due to corrections made to the report in the 2009/10 financial year.

## Dihlabeng Local Municipality

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5.3

### Solvability

In this ratio, the total assets are compared to the total liabilities, and it shows the ability of the Municipality to meet its obligations in the long term. A ratio of less than one is an indication of insolvency. The following table shows the calculation of the solvency ratio:

Description	2009/10	2008/09
<b>TOTAL ASSETS:</b>		
Current assets	92,340,645	163,863,207
Non-current assets	644,490,095	588,334,516
Total	736,830,740	752,197,723
<b>TOTAL LIABILITIES:</b>		
Current liabilities	111,875,408	91,858,647
Plus: Long-term loans	35,867,643	41,208,422
Consumer deposits	3,278,322	3,189,275
Non-current provisions	18,929,300	9,296,845
Lease liabilities	57,176	89,779
Total	170,007,849	145,642,968
Solvability Ratio	4,33 : 1	5,16 : 1

The total assets of the Municipality decreased with 2,04% while the total liabilities increased with 17% resulting in an decrease in the solvability ratio as stated above. Non-current assets increased with 10% while external loans decreased with 13%. No provision for depreciation was provided for due to the implementation of Directive 4, which could have a significant influence on this ratio.

**Restatement:** The amounts for the 2008/9 financial year have been restated due to corrections made to the report in the 2009/10 financial year.

5.4

### Total debt to total revenue ratio

According to credit rating companies, the benchmark for local government is a ratio of less than 50%. The ratio decreased from 28,75% to 18,05% since 2008/9. This decrease can be ascribed to the fact that the total debt decreased with 30% in relation to the increase of 12% in total revenue.

Description	2009/10	2008/09
Total debt	65,287,640	92,704,320
Total revenue	361,631,926	322,460,056
Ratio	18,05%	28,75%

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5.5 Cashbook balance plus short-term loans to total operating revenue

Description	2009/10	2008/09
Cash book overdraft plus short term loans	29,419,997	51,495,898
Total revenue	361,631,926	322,460,056
Ratio	8,14%	15,97%

According to credit rating companies, the benchmark is a ratio of less than 5%. The ratio improved due to a decrease in the negative cash book balance and an increase in revenue.

5.6 Cash to interest coverage

This ratio indicates to what extent a local authority can generate sufficient cash from its normal activities to cover its external interest liabilities. If the ratio is less than 1:1, it may indicate future cash flow problems. The ratio for the past two financial years is as follows:

Description	2009/10	2008/09
Cash generated from operations (Nett cash flow)	186,162,556	171,761,109
Interest paid on external loans	6,316,006	11,051,650
Ratio	29,47 : 1	15,54 : 1

The ratio shows an increase as the interest paid on external loans decreased with 43% and the cash generated from operations increased with 8% since 2008/9.

5.7 Debt to cash ratio

This ratio indicated below is a yardstick to measure the time (in years) that it will take a local authority to pay off its debt (loans) from cash generated by operating activities. The ratio for the past two financial years is as follows:

Description	2009/10	2008/09
Long-term debt	35,867,643	41,208,422
Cash generated from operations	186,162,556	171,761,109
Ratio	1,93: 1	2,40 : 1

The ratio shows a decrease as the long-term debt decreased with 13% while the cash generated from operations increased with 8% since 2008/9.

Restatement: The amounts for the 2008/9 financial year have been restated due to corrections made to the report in the 2009/10 financial year.

# Dihlabeng Local Municipality

## Annual Financial Statements for the year ended 30 June 2010

5.8

### Repairs and maintenance to annual operating revenue

Description	2009/10	2008/09
Annual operating revenue	361,631,926	322,460,056
Repairs and maintenance	16,822,572	17,968,557
Percentage	4,65%	5,57%

This ratio decrease is not very positive as it showed that less funds were channelled to repairing of our equipment and infrastructure.

5.9

### Net debtors to total annual operating revenue

Description	2009/10	2008/09
Annual operating revenue	361,631,926	322,460,056
Debtors (excluding provision for bad debt)	204,230,305	175,207,222
Percentage	56,47%	54,33%

This ratio did not have any significant movement. This is a clear indication that the debt collection process of the municipality needs to be improved even more.

Restatement: The amounts for the 2008/9 financial year have been restated due to corrections made to the report in the 2009/10 financial year.

## 6. CHALLENGES EXPERIENCED DURING 2009/10

### 6.1 GOING CONCERN ISSUES

The going concern of the municipality remains a issue that management needs to address, the following areas are of concern:

- The government subsidies equate to 32% of our income. The situation showed an increase as the 2008/9 financial year the percentage was 27%. This means that there was a greater reliance by the municipality on government grants.
- With reference to 5.2 (Quick asset ratio), the ration of 0,82 : 1 is an average ratio given the norm of 1 : 1. The figure is however deceiving as the recoverability of our debtors still remains a problem. If one only takes the recoverable debt into consideration the ratio would look a great deal different.
- Our cash book balance plus short-term debt to operating revenue ratio (section 5.5 above) is an improvement as it decreased from 15,97% (2008/9) to 8,14% (2009/10). The fact that the municipality is relying on debt to finance its operations on an increase basis is of great concern. The municipality will need to seriously address this in order to ensure that it remains a going concern.
- Although the personnel costs decreased from 35,13 % in 2008/9 to 24,46 % in 2009/10. The ratio is still too high due to the impairment of debt and the municipality should make all

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possible efforts to reduce it to at least 30% excluding impairment of debt in the next financial year to ensure that the municipality is able to meet all its financial obligations. (Refer to 2.3 for more detail)

- The loss of R 41,7 million of the 2009/10 financial year was largely due to the fact that the municipality needed to properly account for its debtors. In order for the outstanding debtors to reflect a truer balance, we needed to make a provision for debt impairment of R 128 million, this was needed in order to play catch-up due to the lower provisions made in the prior financial years. Due to the large provision made in this financial year, the provisions going forward will then become more reasonable and the surplus / deficit will be more realistic.

## 6.2 IMPLEMENTATION OF ACCOUNTING STANDARDS

The Dihlabeng Local Municipality experienced problems with the implementation of certain accounting standards during the compilation of the 2009/10 financial statements and therefore had to make use of external experts to assist.

The Municipality had to comply with the accounting framework as set out in paragraph 1 of the Accounting policies as contained in the Annual Financial Statements of 2009/10. This accounting framework was determined in Directive 5 issued by the Accounting Standards Board on 31 March 2009.

## 6.3 COMPLIANCE OF ASSET REGISTER

It was a tremendous challenging exercise during the 2009/10 financial year to produce a compliant and purified asset register. However, due to a lack of capacity within the Municipality, a tender was awarded to appoint a service provider to assist the municipality to ensure compliance to the new accounting standards. The service provider assisted with the verification, review of useful lives, impairment, etc.

## 7. APPRECIATION

I am grateful to the Mayor, Members of the Executive Committee, Councillors, Office of the Municipal Manager, Directors, staff and our service providers for the support they have given me and my personnel during the 2009/10 financial year. A special word of appreciation to everybody for the months of hard work, sacrifices and concentrated efforts during the financial year to enable my office to finalise and submit the annual financial statements within the prescribed period of 2 months after year end (i.e. 31 August).

  
THABISO TSOAELI  
MUNICIPAL MANAGER



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**Statement of Financial Position**

Figures in Rand

	Note(s)	2010	2009
<b>Assets</b>			
Current Assets			
Other financial assets			
Inventories	6	354,700	421,371
Trade and other receivables from exchange transactions	8	886,431	2,918,840
Other receivables from non-exchange transactions	9	88,764,476	159,873,484
Cash and cash equivalents	10	2,275,972	604,382
	12	59,066	45,130
		<b>92,340,645</b>	<b>163,863,207</b>
Non-Current Assets			
Investment property			
Property, plant and equipment	3	6,403,662	6,403,662
Intangible assets	4	635,108,038	579,883,497
Other financial assets	5	983,620	983,620
Prepayments	6	811,320	736,774
Long-term debtors		1,183,455	-
		-	326,963
<b>Total Assets</b>		<b>644,490,095</b>	<b>588,334,516</b>
		<b>736,830,740</b>	<b>752,197,723</b>
<b>Liabilities</b>			
Current Liabilities			
Cash and Cash Equivalents			
Other financial liabilities	12	25,448,041	47,447,860
Trade and other payables from exchange transactions	13	3,971,956	4,048,038
VAT payable	17	59,653,850	35,812,121
Unspent conditional grants and receipts	18	13,085,561	1,851,628
	15	9,716,000	2,699,000
		<b>111,875,408</b>	<b>91,858,647</b>
Non-Current Liabilities			
Other financial liabilities			
Finance lease obligation	13	35,867,643	41,208,422
Retirement benefit obligation	14	57,176	89,779
Provisions	7	21,400,326	20,656,529
Consumer deposits	16	18,929,300	9,296,845
		3,278,322	3,189,275
<b>Total Liabilities</b>		<b>79,532,767</b>	<b>74,440,850</b>
<b>Net Assets</b>		<b>191,408,175</b>	<b>166,299,497</b>
		<b>545,422,565</b>	<b>585,898,226</b>
Net Assets			
Accumulated surplus		<b>545,422,565</b>	<b>585,898,226</b>

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**Statement of Financial Performance**

Figures in Rand

	Note(s)	2010	2009
<b>Revenue</b>			
Rendering of sundry services			
Property rates		1,123,843	1,047,838
Service charges	19	52,074,194	53,068,426
Sale of housing	20	175,961,990	161,432,020
Rental of facilities and equipment		29,070	-
Interest received	33	3,525,265	3,037,369
Fines		12,381,085	17,987,900
Licences and permits		251,160	501,898
Government grants and subsidies		33,987	(5,028)
Other income	21	115,541,926	85,861,585
Interest Received - Investments	22	683,481	(539,728)
<b>Total Revenue</b>	28	25,925	67,776
		<b>361,631,926</b>	<b>322,460,056</b>
<b>Expenditure</b>			
Employee Related Costs			
Remuneration of councillors	24	(100,929,299)	(92,011,503)
Administrative expenditure	25	(7,917,822)	(7,144,000)
Depreciation and amortisation	26	-	(10,400)
Fair Value Adjustment of Accounts Receivable	30	(31,438)	(31,438)
Finance costs		(1,124,983)	-
Debt Impairment	31	(6,316,006)	(11,051,650)
Repairs and maintenance	27	(128,213,955)	(12,826,290)
Bulk purchases		(16,822,572)	(17,968,557)
Contracted services	36	(56,866,979)	(43,164,578)
Grants and subsidies paid	34	(1,319,356)	(884,994)
General Expenses	35	(9,365,512)	(5,355,486)
<b>Total Expenditure</b>	23	(83,764,260)	(71,501,654)
		<b>(412,672,182)</b>	<b>(261,950,632)</b>
Gain or loss on disposal of assets and liabilities			
Fair value adjustments - Investments		10,251,726	161,673
Fair value adjustments - Game Stock	29	30,845	43,438
<b>(Deficit) surplus for the year</b>		<b>(1,031,600)</b>	<b>542,225</b>
		<b>(41,789,285)</b>	<b>61,256,760</b>

**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2010

**Statement of Changes in Net Assets**

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported	-	547,121,783	547,121,783
Adjustments	-		
Difference regarding 2007 prior year error	-	255,957	255,957
Change in accounting policy, Implementation of GRAP	-	983,620	983,620
Prior year adjustments	-	(23,719,894)	(23,719,894)
Balance at 01 July 2008 - Restated	-	524,641,466	524,641,466
Changes in net assets	-		
Surplus for the year	-	61,256,760	61,256,760
Total changes	-	61,256,760	61,256,760
Opening balance as previously reported	-	585,898,225	585,898,225
Adjustments	-		
Prior year adjustments	-	1,313,625	1,313,625
Balance at 01 July 2009 as restated	-	587,211,850	587,211,850
Changes in net assets	-		
(Deficit) for the year	-	(41,789,285)	(41,789,285)
Total changes	-	(41,789,285)	(41,789,285)
Balance at 30 June 2010	-	545,422,565	545,422,565
Note(s)			

**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2010

**Cash Flow Statement**

Figures in Rand

	Note(s)	2010	2009
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		186,162,556	171,761,109
Grants		122,558,926	84,154,072
		308,721,482	255,921,014
<b>Payments</b>			
Employee costs		(108,887,917)	(99,155,585)
Suppliers		(121,797,017)	(140,397,474)
		(230,684,934)	(239,539,850)
<b>Net cash flows from operating activities</b>	37	78,036,548	16,381,164
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(55,715,270)	(34,237,839)
Proceeds from sale of property, plant and equipment	4	10,251,726	161,673
Proceeds from sale of financial assets		22,970	(49,568)
Proceeds from sale of long-term debtors		326,963	-
Other cash item		(15,095)	-
Interest income		25,925	67,776
		(45,102,781)	(34,057,958)
<b>Net cash flows from investing activities</b>			
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(5,416,861)	(2,026,113)
Movement in consumer deposits		89,047	338,057
Finance lease payments		(70,377)	(28,792)
Adjustment posted directly in surplus		756,411	3,738,896
Finance costs		(6,278,232)	(11,051,650)
		(10,920,012)	(9,029,602)
<b>Net cash flows from financing activities</b>			
<b>Net increase/(decrease) in cash and cash equivalents</b>		22,013,755	(26,706,35)
Cash and cash equivalents at the beginning of the year		(47,402,730)	(20,696,334)
<b>Cash and cash equivalents at the end of the year</b>	12	(25,388,975)	(47,402,730)

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These accounting policies are consistent with the previous period

The standards included in the GRAP reporting framework, as determined in Directive 5 as issued by the accounting Standards Board, are summarised as follows:

GRAP 1 Presentation of Financial Statements  
GRAP 2 Cash Flow Statements  
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors  
GRAP 4 The Effects of changes in Foreign Exchange Rates  
GRAP 5 Borrowing Costs  
GRAP 6 Consolidated and Separate Financial Statements  
GRAP 7 Investments in Associates  
GRAP 8 Interest in Joint Ventures  
GRAP 9 Revenue from Exchange Transactions  
GRAP 10 Financial Reporting in Hyperinflationary Economies  
GRAP 11 Construction Contracts  
GRAP 12 Inventories  
GRAP 13 Leases  
GRAP 14 Events after the reporting date  
GRAP 16 Investment Property  
GRAP 17 Property, Plant and Equipment  
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets  
GRAP 100 Non-current Assets held for Sale and Discontinued Operations  
GRAP 101 Agriculture  
GRAP 102 Intangible Assets  
IFRS 3 (AC140) Business Combinations  
IFRS 4 (AC141) Insurance Contracts  
IFRS 6 (AC143) Exploration for and Evaluation of Mineral Resources  
IFRS 7 (AC144) Financial Instruments: Disclosures  
IAS 12 (AC102) Income Taxes  
IAS 19 (AC116) Employee Benefits  
IAS 32 (AC125) Financial Instruments: Presentation  
IAS 36 (AC128) Impairment of Assets  
IAS 39 (AC133) Financial Instruments: Recognition and Measurement

These accounting policies are consistent with the previous period.

#### **1.1 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to

## **Accounting Policies**

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### **1.1 Significant judgements and sources of estimation uncertainty (continued)** the estimated loss emergence period.

#### **Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

#### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the statement of financial position date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including maintenance, changes in technology, market conditions, together with economic factors such as interest rate fluctuations..

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

## **Accounting Policies**

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### **1.1 Significant judgements and sources of estimation uncertainty (continued)**

#### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

### **1.2 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### **Fair value**

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

#### **Transitional provision**

The municipality changed its accounting policy for investment property in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in note 3. The transitional provision expires on 30 June 2011.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

### **1.3 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

## Accounting Policies

### 1.3 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	
• Roads and Paving	10 - 30
• Airports	20
• Pedestrian Malls	20
• Electricity	10 - 30
• Water	15 - 20
• Sewerage	15 - 40
• Security Measures	3 - 5
Community	
• Buildings community	30
• Recreational Facilities	20
• Land	Infinite
Other property, plant and equipment	
• Office Equipment	5 - 7
• Furniture and Fittings	7 - 10
• Bins and Containers	5 - 10
• Emergency Equipment	5 - 15



## **Accounting Policies**

### **1.3 Property, plant and equipment (continued)**

• Motor Vehicles	3 - 20
• Plant and Equipment	5 - 15
• Buildings other	Infinite
• Other (Aircraft)	15

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of Intangible assets is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### **Transitional provision**

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 30 June 2011.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

### **1.4 Intangible assets**

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

## **Accounting Policies**

### **1.4 Intangible assets (continued)**

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years
Website development costs	3 years

### **1.5 Financial Instruments**

#### **Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities at fair value through surplus or deficit
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### **Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

#### **Subsequent measurement**

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses

## **Accounting Policies**

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### **1.5 Financial instruments (continued)**

arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### **Fair value determination**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### **Impairment of financial assets**

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### **Trade and other receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

## **Accounting Policies**

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### **1.5 Financial Instruments (continued)**

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### **Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### **Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### **Financial liabilities and equity Instruments**

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

#### **Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

#### **Derecognition of Financial Instruments**

##### **Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase,

## **Accounting Policies**

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### **1.5 Financial instruments (continued)**

except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

#### **Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### **1.6 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **Finance leases – lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

#### **Operating leases – lessor**

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

#### **Operating leases – lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset.

## **Accounting Policies**

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### **1.6 Leases (continued)**

This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

### **1.7 Inventories**

Water inventory are measured at the lower of cost and net realisable value.

Other inventory are measured at the lower of cost and net replacement value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of reporting date comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.8 Non-current assets held for sale (and) (disposal groups)**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### **1.9 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

## **Accounting Policies**

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### **1.9 Impairment of cash-generating assets (continued)**

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### **1.10 Employee benefits**

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### **Other post retirement obligations**

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover both the liability.

### **1.11 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This

## **Accounting Policies**

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### **1.11 Provisions and contingencies (continued)**

increase is recognised as an interest expense.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

### **1.12 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date.



## **Accounting Policies**

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### **1.12 Revenue from exchange transactions (continued)**

#### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.13 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### **Fines**

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### **Levies**

Levies are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the

## **Accounting Policies**

- municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

### **Government grants**

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

### **Other grants and donations**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### **1.14 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.15 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

## **Accounting Policies**

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### **1.15 Borrowing costs (continued)**

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.16 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.17 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.18 Irregular expenditure**

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly.

## **Accounting Policies**

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**1.18 Irregular expenditure (continued)**  
in the irregular expenditure register.

### **1.19 Use of Estimates**

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### **1.20 Presentation of Currency**

These annual financial statements are presented in South african Rand which is the functional currency.

### **1.21 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP or GAAP.

### **1.22 Investments**

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

### **1.23 Conditional Grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

## Notes to the Annual Financial Statements

Figures in Rand

2010

2009

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2009.

The municipality has adopted the interpretation for the first time in the 2010 annual financial statements.

The impact of the interpretation is material but the materiality cannot be determined.

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods:

##### GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and

## **Notes to the Annual Financial Statements**

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### **2. New standards and interpretations (continued)**

Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 103: Heritage Assets**

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

GRAP 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

GRAP 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the

## **Notes to the Annual Financial Statements**

### **2. New standards and interpretations (continued)**

The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 21: Impairment of non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 26: Impairment of cash-generating assets**

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

## **Notes to the Annual Financial Statements**

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### **2. New standards and interpretations (continued)**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when a municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by



## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

- employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, Incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits;

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;

## **Notes to the Annual Financial Statements**

2. New standards and interpretations (continued)
- Past service cost.
  - Plan assets:
    - Fair value of plan assets;
    - Reimbursements;
    - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 104: Financial Instruments**

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and

## **Notes to the Annual Financial Statements**

### **2. New standards and interpretations (continued)**

- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

### **2009 Annual Improvements Project: Amendments to IAS 39 (AC 133) Financial Instruments: Recognition and Measurement**

In terms of the amendment, forward contracts to buy or sell an acquiree that will result in a business combination in the future, are only exempt from the Standard if the term of the contract does not exceed that which is reasonably necessary to obtain the required approval and complete the transaction. The amendment further clarifies that in a cash flow hedge of a forecast transaction, gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects surplus or deficit. The amendment also clarifies that a prepayment option is not closely related to the host contract unless the exercise price is approximately equal to the present value of the lost interest for the remaining term of the host contract.

# **Dihlabeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2010

## **Notes to the Annual Financial Statements**

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### **2. New standards and interpretations (continued)**

The municipality expects to adopt the amendment for the first time in the 2011 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

	2010			2009		
3. Investment property						
	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	6,403,662	-	6,403,662	6,403,662	-	6,403,662

### Reconciliation of investment property - 2010

	Opening Balance	Total
Investment property	6,403,662	6,403,662

### Reconciliation of investment property - 2009

	Opening Balance	Total
Investment property	6,403,662	6,403,662

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### Details of valuation

The valuation was based on values of the properties as contained in the valuation roll. The valuation roll was updated by Arthur Lelosa independent valuers and implemented the 1st of July 2009.

### Transitional provisions

#### Investment property recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain investment property with a carrying value of R6,403,662 (2009: R6,403,662) was recognised at provisional amounts. Carrying amounts of investment property carried at provisional amounts are as follows:

#### Due to initial adoption of GRAP 16

Investment property	6,403,662	6,403,662
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Provisional amounts retrospectively adjusted during the year, are as follows for effect on the annual financial statements:

Investment property	6,403,662	6,403,662
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The date at which full compliance with GRAP 16 is expected, is 30 June 2011.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

2010

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### 4. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Aircraft	3,850	-	3,850	3,850	-	3,850
Bins and containers	3,779,979	-	3,779,979	3,779,979	-	3,779,979
Buildings Other	18,130,784	-	18,130,784	17,521,253	-	17,521,253
Community - Buildings	19,430,738	-	19,430,738	11,917,358	-	11,917,358
Community - Land	177,407,324	-	177,407,324	177,347,732	-	177,347,732
Community - Recreational Facilities	24,064,973	-	24,064,973	10,437,362	-	10,437,362
Emergency Equipment	178,096	-	178,096	119,596	-	119,596
Finance Leased Assets	594,714	(547,545)	47,169	594,714	(516,107)	78,607
Furniture and equipment	2,545,009	-	2,545,009	2,212,462	-	2,212,462
Game Stock	1,445,800	-	1,445,800	2,477,400	-	2,477,400
Infrastructure - Airports	624,542	-	624,542	624,542	-	624,542
Infrastructure - Electricity	42,210,948	-	42,210,948	42,119,849	-	42,119,849
Infrastructure - Pedestrian Malls	9,701,631	-	9,701,631	9,701,631	-	9,701,631
Infrastructure - Roads	115,514,217	-	115,514,217	93,951,106	-	93,951,106
Infrastructure - Security Measures	2,329,204	-	2,329,204	2,196,427	-	2,196,427
Infrastructure - Sewerage	72,652,049	-	72,652,049	69,135,511	-	69,135,511
Infrastructure - Water	103,090,541	-	103,090,541	101,765,588	-	101,765,588
Motor vehicles	16,191,046	-	16,191,046	16,191,046	-	16,191,046
Office equipment	9,808,469	-	9,808,469	7,990,293	-	7,990,293
Plant and machinery	15,951,669	-	15,951,669	10,311,905	-	10,311,905
<b>Total</b>	<b>635,655,583</b>	<b>(547,545)</b>	<b>635,108,038</b>	<b>580,399,604</b>	<b>(516,107)</b>	<b>579,883,497</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

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### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2010

	Opening Balance	Additions	Fair Value Adjustments	Other changes, movements	Depreciation	Total
Aircraft	3,850	-	-	-	-	3,850
Bins and containers	3,779,979	-	-	-	-	3,779,979
Buildings Other	17,521,253	609,531	-	-	-	18,130,784
Community - Buildings	11,917,358	7,513,380	-	-	-	19,430,738
Community - Land	177,347,732	59,592	-	-	-	177,407,324
Community - Recreational facilities	10,437,362	13,627,611	-	-	-	24,064,973
Emergency equipment	119,596	58,500	-	-	-	178,096
Finance leased assets	78,607	-	-	-	-	78,607
Furniture and equipment	2,212,462	332,547	-	-	(31,438)	2,513,571
Game Stock	2,477,400	-	(1,031,600)	-	-	1,445,800
Infrastructure - Airports	624,542	-	-	-	-	624,542
Infrastructure - Electricity	42,119,849	91,099	-	-	-	42,210,948
Infrastructure - Pedestrian Malls	9,701,631	-	-	-	-	9,701,631
Infrastructure - Roads	93,951,106	21,994,111	-	(431,000)	-	115,514,217
Infrastructure - Security measures	2,196,427	132,777	-	-	-	2,329,204
Infrastructure - Sewerage	69,135,511	3,516,538	-	-	-	72,652,049
Infrastructure - Water	101,765,588	321,644	-	1,003,309	-	103,090,541
Motor vehicles	16,191,046	-	-	-	-	16,191,046
Office equipment	7,990,293	1,818,176	-	-	-	9,808,469
Plant and machinery	10,311,905	5,639,764	-	-	-	15,951,669
	579,883,497	55,715,270	(1,031,600)	572,309	(31,438)	635,108,038

#### Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Fair Value Adjustments	Depreciation	Total
Aircraft	3,850	-	-	-	3,850
Bins and containers	3,779,979	-	-	-	3,779,979
Buildings Other	17,521,253	-	-	-	17,521,253
Community - Buildings	11,917,358	-	-	-	11,917,358
Community - Land	177,347,732	-	-	-	177,347,732
Community - Recreational facilities	3,215,644	7,221,718	-	-	10,437,362
Emergency equipment	105,596	14,000	-	-	119,596
Finance leased assets	110,045	-	-	-	110,045
Furniture and equipment	1,922,660	289,802	-	(31,438)	2,181,024
Game stock	1,935,175	-	542,225	-	2,477,400
Infrastructure - Airports	624,542	-	-	-	624,542
Infrastructure - Electricity	41,760,967	358,882	-	-	42,119,849
Infrastructure - Pedestrian Malls	8,667,531	1,034,100	-	-	9,701,631
Infrastructure - Roads	84,558,213	9,392,893	-	-	93,951,106
Infrastructure - Security Measures	2,196,427	-	-	-	2,196,427
Infrastructure - Sewerage	67,726,666	1,408,845	-	-	69,135,511
Infrastructure - Water	88,327,406	13,438,182	-	-	101,765,588
Motor vehicles	16,191,046	-	-	-	16,191,046
Office equipment	7,659,614	330,679	-	-	7,990,293
Plant and machinery	9,563,167	748,738	-	-	10,311,905
	545,134,871	34,237,839	542,225	(31,438)	579,883,497

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

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2009

### 4. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Finance leased assets

47,169

78,607

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain property, plant and equipment with a carrying value of R 583,731,151 (2009: R 591,231,032) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

Property, plant and equipment

635,108,040

589,300,123

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The Municipality is in the process of identifying and classifying the assets into their respective categories. The Infrastructure assets were identified and will be taken into account in the next financial year.

The date at which full compliance with GRAP 17 is expected, is 30 June 2011.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 5. Intangible assets

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	983,620	-	983,620	983,620	-	983,620

Reconciliation of Intangible assets - 2010

	Opening Balance	Total
Computer software	983,620	983,620

Reconciliation of intangible assets - 2009

	Opening Balance	Total
Computer software	983,620	983,620

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain intangible assets with a carrying value of R 983,620 (2009: R 983,620) was recognised at provisional amounts. Carrying amounts of intangible assets carried at provisional amounts are as follows:



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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### 5. Intangible assets (continued)

Due to initial adoption of GRAP 102

Computer Software

983,620

983,620

Steps taken to establish the values of intangible assets recognised at provisional amounts due to the initial adoption of GRAP 102, is as follows:

The Municipality identified Computer Software as intangible assets in the previous financial year. They are in the process of identifying the remaining intangible assets that may exist.

The date at which full compliance with GRAP 102 is expected, is 30 June 2011.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

	2010	2009
<b>6. Other financial assets</b>		
Loans and receivables		
Short-term deposit Standard Bank		
The short-term deposit at Standard Bank is fixed and matures at a future date.	-	2,276
The balance is represented by:		
Standard Bank Call Account 248 786 032 R - (2010) R 2 276 (2009)		
Financial Instrument ABSA Short-term Deposit	354,700	419,095
The short-term deposit at ABSA is fixed and matures at a future date. The balance is represented by the following fixed deposits:		
ABSA 205 630 2408 R 10 000 (2010) R 13 024 (2009)		
ABSA 205 189 9282 R 243 063 (2010) R 283 771 (2009)		
ABSA 205 710 3524 R 101 637 (2010) R 122 300 (2009)		
Listed Co-operative fund Insemnia - Long-term	43,004	43,004
The co-operative fund consist of shares in Insemnia and is represented by 5 shares held in Insemnia		
Unlisted Co-operative fund Rosendal - Long-term	20,937	18,754
The co-operative fund consists of 5 088 shares held in Rosendal.		
Unlisted Co-operative fund Fouriesburg - Long-term	51,806	46,407
The co-operative fund consists of 12 590 shares held in Fouriesburg.		
Listed Investment Sanlam - Long-term	95,303	72,040
The listed shares held in Sanlam is represented by the following:		
Sanlam 2714634125:		
1 873 shares at R22,86 per share (2010)		
1 873 shares at R17,28 per share (2009)		
Sanlam 2714634346:		
2 296 shares at R22,86 per share (2010)		
2 296 shares at R17,28 per share (2009)		
Financial Instrument Sanlam Long-term	600,270	556,569
The long-term deposit at Sanlam is fixed and matures at a future date. The balance is represented by:		
Sanlam 102 310364 R600 270 (2010) R556 244 (2009)		
	1,166,020	1,158,145
<b>Non-current assets</b>		
Loans and receivables	811,320	736,774
<b>Current assets</b>		
Loans and receivables	354,700	421,371
	1,166,020	1,158,145

### Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2010 and 2009, as all the financial assets were disposed of at their redemption date.

**Notes to the Annual Financial Statements**

Figures in Rand

	2010	2009
6. Other financial assets (continued)		
Fair values of loans and receivables		
Loans and receivables		
7. Retirement benefits	1,166,020	1,158,145
Defined benefit plan		
Post retirement medical aid plan		
The valuation was performed by Deloitte & Touche and they are not connected to the municipality. The full actuarial valuation report are available on request.		
The Post retirement medical aid plan consists of the Bonitas, Hosmed, LA Health, Key Health and Samwumed and Munimed medical aid funds.		
The total in-service employees belonging to Medical Scheme as at 30 June 2010 were 47 and the total continuation employees receiving the medical aid benefit as at 30 June 2010 were 56.		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(21,400,326)	(20,656,529)
Movements for the year		
Opening balance	20,656,529	20,656,529
Net expense recognised in the statement of financial performance	743,797	-
	21,400,326	20,656,529
Net expense recognised in the statement of financial performance		
Current service cost	390,772	-
Interest cost	1,533,665	-
Curtailement or settlement	(1,180,640)	-
	743,797	-
Key assumptions used		

Assumptions used on last valuation on 30 June 2010.

The economic assumptions as follows were applied:

- Investments return 7.64%
- Long-term medical inflation 6.58%

The investment return assumption is based on the entire zero-coupon South African Bond Yield curve as at 30 June 2009.

The investment return assumption should not be considered in isolation but in conjunction with the assumed level of medical inflation, as the relation between these two assumptions affects the size of the liability to a far greater extent than the actual values of the assumptions.

The real discount rate, the difference between the medical inflation and the discount rate, is 1,0% per annum and is consistent with that used in the full valuation of the Municipality's post-retirement medical assistance liabilities as at 30 June 2010.

No actuarial gain or loss has arisen as we have not performed a full valuation as at 30 June 2009.

# Dhlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Retirement benefits (continued)

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. All Councillors and employees belong to 3 defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 is being finalised and will be submitted to the municipality once approved by the executive committee of the fund. Information could not be obtained for the other two funds regarding the administrators nor the actuaries.

An actuarial valuation is being performed and will be provided as soon as it is available.

The municipality is under no obligation to cover any unfunded benefits.

### 8. Inventories

Consumable stores		
Water		
Fuel (Diesel, Petrol)	393,027	2,097,219
Chemicals	147,604	120,249
	141,092	701,372
	204,708	-
	886,431	2,918,840

### 9. Trade and other receivables from exchange transactions

Trade debtors		
Debt Impairment	204,230,305	175,207,222
Other receivables	(115,477,790)	(15,345,239)
Bank errors	8,337	8,337
	3,624	3,164
	88,764,476	159,873,484

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance		
Provision for impairment	15,345,239	105,796,757
Amounts written off as uncollectible	128,213,955	12,825,808
Other	(28,081,404)	(102,191,033)
	-	(1,086,293)
	115,477,790	15,345,239

### 10. Other receivables from non-exchange transactions

Other receivables from non-exchange revenue	2,275,972	604,382
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### 11. Consumer debtors

#### Fair value of consumer debtors

Consumer debtors	88,764,476	159,873,484
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Refer to Annexure A for the disclosure of Debtors.

#### Consumer debtors impaired

As of 30 June 2010, consumer debtors of R128,213,955 (2009: R 12,825,808) were impaired and provided for.

The amount of the provision was R 128,213,955 as of 30 June 2010 (2009: R 12,825,808).

**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2010

**Notes to the Annual Financial Statements**

Figures in Rand

	2010	2009
<b>11. Consumer debtors (continued)</b>		
Reconciliation of provision for impairment of consumer debtors		
Opening balance	15,348,239	105,796,757
Provision for impairment	128,213,955	12,828,808
Amounts written off as uncollectible	(28,081,404)	(102,191,033)
Other	-	(1,086,293)
	<b>115,480,790</b>	<b>15,348,239</b>

**12. Cash and cash equivalents**

Cash and cash equivalents consist of:

Other cash and cash equivalents	59,066	45,130
Cashbook Balance	(25,448,041)	(47,447,860)
	<b>(25,388,975)</b>	<b>(47,402,730)</b>
Current assets	59,066	45,130
Current liabilities	(25,448,041)	(47,447,860)
	<b>(25,388,975)</b>	<b>(47,402,730)</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
ABSA Bank - Cheque Account (Primary) - 405-289-8966 Bloemfontein	(2,537,752)	(9,181,389)	(5,343,780)	(25,427,904)	(50,908,268)	(19,844,362)
ABSA Bank - Cheque Account (Projects) - 100-001-0223 Bloemfontein	21,475	246,610	-	(20,137)	3,460,409	100,521
Total	(2,516,277)	(8,934,779)	(5,343,780)	(25,448,041)	(47,447,859)	(19,743,841)

13. Other financial liabilities

**13. Other financial liabilities**

Held at amortised cost		
DBSA Loan 1		
DBSA Loan 1 bears interest at a fixed rate of 5% per annum. Arrears at 7% per annum. Monthly installments of R136,197.75 over a period of 60 months. There are 8 months remaining.	1,200,422	3,942,089
INCA Loan 1264		
The loan bears interest at a rate of 14.52% per annum. Monthly installments of R114,870.41 over a period of 120 months. There are 37 months remaining.	3,434,023	4,266,653
INCA Loan 2813		
The loan bears interest at a rate of 14% compounded monthly. Monthly installments of R46,914.40 over a period of 120 months. There are 41 months remaining.	1,521,306	1,846,104
DBSA Loan 2		
DBSA Loan 2 bears interest at a fixed rate of 14.5% per annum. Arrears at 16.5% per annum. Monthly installments of R517,222.94 over a period of 180 months. There are 121 months remaining.	33,683,848	35,201,614
	<b>39,839,599</b>	<b>45,256,460</b>

**Notes to the Annual Financial Statements**

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	2010	2009
<b>13. Other financial liabilities (continued)</b>		
<b>Non-current liabilities</b>		
At amortised cost	35,867,643	41,208,422
<b>Current liabilities</b>		
At amortised cost	3,971,956	4,048,038
<b>Fair value of the financial liabilities carried at amortised cost</b>	<b>39,839,599</b>	<b>45,256,460</b>
Bank loans	39,839,599	45,256,460

The fair values of the financial liabilities were determined by using the valuation as done by the relevant institutions who has external credit ratings.

Financial liabilities are carried at amortised cost.

The fair value is the carrying value of the outstanding capital.

**14. Finance lease obligation**

<b>Minimum lease payments due</b>		
- within one year	42,000	42,000
- in second to fifth year inclusive	21,000	63,000
<b>less: future finance charges</b>	<b>63,000</b>	<b>105,000</b>
<b>Present value of minimum lease payments</b>	<b>(5,824)</b>	<b>(15,221)</b>
	<b>57,176</b>	<b>89,779</b>
<b>Present value of minimum lease payments due</b>		
- within one year	36,921	32,604
- in second to fifth year inclusive	20,255	57,175
	<b>57,176</b>	<b>89,779</b>

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 13% (2009: 13%).

**15. Unspent conditional grants and receipts**

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	9,716,000	2,699,000

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

**Notes to the Annual Financial Statements**

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**16. Provisions**

**Reconciliation of provisions - 2010**

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation Rehabilitation Dumping Site	7,500,000	11,000,000	-	18,500,000
	1,796,845	-	(1,367,545)	429,300
	9,296,845	11,000,000	(1,367,545)	18,929,300

**Reconciliation of provisions - 2009**

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation Rehabilitation Dumping Site	7,500,000	-	-	7,500,000
Legal Costs	931,198	865,647	-	1,796,845
	20,000	-	(20,000)	-
	8,451,198	865,647	(20,000)	9,296,845

**Provisions:**

The provision for the rehabilitation of the landfill site was calculated by the Municipality and it is based on the implementation costs of an environmental impact assessment. The provision for the rehabilitation of the regional Bethlehem landfill site was calculated at R20 per square metre on the area of 850 000 square metre of the site. The timing of the cashflow is uncertain.

The provision for the clearing of illegal dumping sites were calculated by the Municipality on a basis of machinery and man hours needed to clear the dumping sites. The timing of the cashflow is uncertain.

No final decision has been taken to rehabilitate the landfill site and the clearing of illegal dumping sites.

**Restatement of Provision for legal fees:**

Legal fees of R315 500 relating to the 2008 financial year was restated as it was no longer a provision.

**17. Trade and other payables from exchange transactions**

Trade payables	31,862,385	15,075,722
Accrued leave pay	7,560,983	6,359,777
Accrued bonus	2,624,347	2,455,084
Deposits received	(17,059)	26,274
Suspense accounts	17,623,194	11,895,264
	59,653,850	35,812,121

**Fair value of trade and other payables**

Trade payables	59,653,849	35,812,121
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**18. VAT payable**

VAT Payable	(1,313,609)	(9,684,537)
Debtors VAT accrued	14,399,170	11,536,165
	13,085,561	1,851,628

## Notes to the Annual Financial Statements

Figures in Rand

	2010	2009
<b>19. Property Rates</b>		
Rates received		
Property rates	52,074,194	53,068,426
Valuations		

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.0055% is applied to residential property valuations and 0.016% to business and state-owned properties to determine the assessment rates. Rebates of 25% are granted to pensioners and 75% to Agricultural owners.

### 20. Service charges

Sale of electricity	84,154,702	77,874,008
Sale of water	33,009,641	30,083,610
Sewerage and sanitation charges	30,563,034	28,798,577
Refuse removal	28,234,613	24,675,827
	<b>175,961,990</b>	<b>161,432,020</b>



**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2010

**Notes to the Annual Financial Statements**

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	2010	2009
<b>21. Government grants and subsidies</b>		
Councillors Remuneration Grant		
Equitable Share - Indigents	1,620,045	1,963,447
Equitable Share - Free Basic Electricity	78,154,369	60,866,847
Fire 8rigade Grant	4,050,112	2,617,929
National Roads Subsidy Grant	-	64
Financial Support Grant	17,100	17,100
Municipal Infrastructure Grant	1,250,000	570,298
	30,450,300	19,825,900
	<b>115,541,926</b>	<b>85,861,585</b>
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Equitable Share - Indigents and Free Basic Electricity		
Current-year receipts		
Conditions met - transferred to revenue	82,204,481	62,749,223
	(82,204,481)	(62,749,223)
	-	-
The Equitable Share Allocation was fully utilised.		
Councillors Remuneration Grant		
Current-year receipts		
Conditions met - transferred to revenue	1,620,045	1,963,447
	(1,620,045)	(1,963,447)
	-	-
The Councillors remuneration grant was fully utilised.		
Finance Support Grant		
Current-year receipts		
Conditions met - transferred to revenue	1,250,000	527,248
	(1,250,000)	(527,248)
	-	-
The Finance Support Grant was fully utilised during the year.		
National Roads Subsidy Grant		
Current-year receipts		
Conditions met - transferred to revenue	17,100	17,100
	(17,100)	(17,100)
	-	-
The National Roads Subsidy Grant was fully utilised during the year.		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	2,699,000	-
Current-year receipts	38,183,300	22,524,900
Conditions met - transferred to revenue	(30,450,300)	(19,825,900)
Unspent	(716,000)	-
	<b>9,716,000</b>	<b>2,699,000</b>
The unspent portion of the Municipal Infrastructure Grant will be utilised in the next financial year.		

**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2010

**Notes to the Annual Financial Statements**

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	2010	2009
<b>22. Other revenue</b>		
Sundry income	683,481	(539,728)
Other income:		
Advertising Signs	90,465	92,469
Blocked Sewerage Charges	30,674	51,533
Building Plan Fees	152,490	168,542
Clearance Certificates	61,684	26,194
Eskom Contribution	118,102	271,277
Current and General	297,931	(822,105)
Enroachment Charges	9,506	8,437
Enquiry fees	439	(83)
Escourting Abnormal Freight	3,103	3,484
Game Stock Sales	39,322	124,654
Labour Workshop	1,210	4,190
Landing Charges	13,800	13,80
Maintenance Charges	1,838	3,190
Municipal Gravel Roads Levy	2,100	2,100
Parking Meters	46,656	51,326
Photostats Copies and Faxes	14,238	13,907
Railway Siding	49,152	41,718
Sale of Library Books	(14,659)	-
Pound Sales	31,942	-
Service Centre Levies	3,155	3,155
Skills Development Levy Refund	565,258	-
Sundry Income	(1,229,199)	(635,403)
Sundry Income Traffic	17,259	33,030
Sundry Income Electricity	254,725	3,661
Sundry Income Parks	122,290	1,190
	<b>683,481</b>	<b>(539,728)</b>

**Dihlabeng Local Municipality**  
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**Notes to the Annual Financial Statements**

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	2010	2009
<b>23. General expenses</b>		
Advertising		
Assessment rates and municipal charges	513,495	456,532
Repairs and Maintenance	-	73,461
Auditors remuneration	1,116,759	2,350,838
Bank charges	2,574,112	1,658,364
Best practice for Councillors	1,060,057	940,500
Bursaries	198,638	112,164
Capital Expenditure	669,951	1,194,817
Chemicals	3,074,403	3,266,569
Civic Funerals	368,406	1,056,723
Cleaning	110,307	-
Community development and training	14,945	-
Post Employment Medical Benefit Current Service Cost	4,524,054	4,133,744
Post Employment Medical Benefit Interest	390,772	-
Consulting and professional fees	1,533,665	-
Consumables	15,699,134	8,829,845
Donations	1,903,124	408,231
Entertainment	680,264	1,926,111
Fines and penalties	1,646,485	871,355
Fleet	1,513,476	423,290
Hire	19,479	289,568
Electricity Cost	1,509,809	3,131,396
Insurance	4,261,523	9,979,634
Lease rentals on operating lease	2,410,402	2,086,115
Magazines, books and periodicals	658	-
Marketing	27,979	348,526
Other expenses	1,090,001	435,495
Pauper Burials	(288)	144,320
Postage and courier	48,751	104,571
Printing and stationery	769,997	767,384
Productions	1,046,502	868,082
Promotions and sponsorships	4,500	53,468
Public Participation	441,362	1,734,643
Refuse	297,258	388,825
Rehabilitation of Dumping Site	(350)	-
Rehabilitation of Landfill Site	3,063,486	2,391,029
Royalties and license fees	11,000,000	3,650,000
Security (Guarding of municipal property)	335,004	84,612
Sewerage and waste disposal	3,449,235	3,486,331
Staff welfare	-	604,676
Subscriptions and membership fees	256,857	227,023
Telephone and fax	1,120,473	738,003
Town Planning Cost	1,919,717	1,577,533
Training	(22,807)	323,444
Transport and freight	142,631	1,219,016
Travel and subsistence	8,167,485	6,796,100
Travel and subsistence - Councillors	780,557	572,352
Uniforms	172,799	158,473
Valuation Cost	978,763	805,158
	2,880,430	833,333
	<b>83,764,260</b>	<b>71,501,654</b>

**Notes to the Annual Financial Statements**

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	2010	2009
<b>24. Employee related costs</b>		
Basic	61,130,171	53,992,475
Bonus	4,994,084	4,532,648
Car allowance	3,295,408	1,782,384
Group Life Insurance	107,983	129,800
Housing benefits and allowances	376,853	-
Leave pay provision charge	2,722,531	1,900,140
Medical aid - company contributions	5,371,666	5,790,348
Acting Allowances	216,701	-
Other Allowances	2,184,400	-
Other payroll levies	31,988	31,454
Overtime payments	2,433,848	2,342,633
Pension Fund Contributions	10,847,339	9,885,773
Post-employment benefits - Medical Aid - Defined contribution plan	1,159,212	1,113,277
Standby allowances	2,100,463	1,692,596
Telephone Allowance	212,509	-
UIF	621,604	603,500
	<b>97,806,760</b>	<b>83,797,096</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	390,022	590,345
Car Allowance	134,556	241,164
Contributions to UIF, Medical and Pension Funds	39,587	99,068
Leave Pay Out	212,601	135,440
Cellphone Allowance	9,000	18,000
	<b>785,766</b>	<b>1,084,017</b>
Mr SJ Msibi from 1 July 2009 to 31 July 2009.		
Mr MM Monchusi from 1 August 2009 to 12 September 2009.		
The post of the municipal manager was vacant from 13 September 2009 to 21 February 2010.		
Mr TE Tsoaeli from 22 February 2010 to 30 June 2010.		
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	-	467,500
Car Allowance	-	155,833
Contributions to UIF, Medical and Pension Funds	-	5,829
Leave Pay Out	-	164,560
Re-imbursable travel and subsistence allowance	-	4,598
	-	<b>798,320</b>
The post of the Chief Finance Office was vacant for the current financial year.		
<b>Director of Public Works</b>		
Annual Remuneration	46,625	561,000
Car Allowance	15,583	187,000
Contributions to UIF, Medical and Pension Funds	695	5,882
Leave Pay Out	-	44,880
Cellphone Allowance	1,000	13,000
	<b>63,903</b>	<b>811,762</b>
Mr MM Monchusi from 1 July 2009 to 31 July 2009. The post was vacant from 1 August 2009.		

**Notes to the Annual Financial Statements**

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	2010	2009
<b>24. Employee related costs (continued)</b>		
<b>Director Corporate Services</b>		
Annual Remuneration	512,877	467,500
Car Allowance	171,417	155,833
Acting Allowance	75,563	-
Contributions to UIF, Medical and Pension Funds	8,592	5,690
Leave Pay Out	-	137,632
Cellphone Allowance	11,000	13,000
	<b>779,449</b>	<b>779,655</b>
Mr MES Mathwalo from 1 August 2009 to 30 June 2010.		
<b>Director Community Services</b>		
Annual Remuneration	373,002	561,000
Car Allowance	124,667	187,000
Contributions to UIF, Medical and Pension Funds	3,597	6,009
Leave Pay Out	156,831	44,880
Cellphone Allowance	8,000	13,000
	<b>666,097</b>	<b>811,889</b>
Mrs AA Molefe from 1 July 2009 to 25 November 2009. The post was vacant from 26 November 2009.		
<b>Director of Local Economic Development</b>		
Annual Remuneration	559,503	561,000
Car Allowance	187,000	187,000
Contributions to UIF, Medical and Pension Funds	8,981	5,408
Cellphone Allowance	12,000	2,000
Leave Pay Out	59,840	-
	<b>827,324</b>	<b>755,408</b>
Mrs GT Hadebe from 1 July 2009 to 30 June 2010:		
<b>25. Remuneration of councillors</b>		
Mayor		
Travel Allowance - Mayor	432,200	389,024
Cellphone Allowance - Mayor	144,069	129,675
Speaker	17,100	15,984
Travel Allowance - Speaker	345,765	311,218
Cellphone Allowance - Speaker	115,255	103,740
Councillors and Executive Committee Members	17,100	15,984
Travel Allowance - Councillors and Executive Committee Members	4,856,111	4,373,226
Cellphone Allowance - Councillors and Executive Committee Members	1,618,692	1,457,736
	<b>371,530</b>	<b>347,495</b>
	<b>7,917,822</b>	<b>7,144,082</b>
<b>26. Administrative expenditure</b>		
Administration and management fees - third party	-	10,400
<b>27. Debt impairment</b>		
Contributions to debt impairment provision	128,213,955	12,826,290

**Notes to the Annual Financial Statements**

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	2010	2009
<b>28. Interest Received - Investments</b>		
Interest revenue		
Interest charged on sundry loans		
Interest Received - ABSA	523	61,943
Interest Received - Standard Bank	25,402	5,628
	-	205
	<b>25,925</b>	<b>67,776</b>
Total Interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R10,998 (2009:R67,776).		
<b>29. Fair value adjustments</b>		
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	30,845	43,438
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	31,438	31,438
Depreciation was calculated on the finance leased asset over the assets useful life of 5 years.		
<b>31. Finance costs</b>		
Trade and other payables		
Finance leases	(231,329)	-
Other interest paid	37,774	13,209
	6,509,561	11,038,441
	<b>6,316,006</b>	<b>11,051,650</b>
<b>32. Auditors' remuneration</b>		
Fees	2,574,112	1,658,364
<b>33. Rental of facilities and equipment</b>		
Premises		
Rental of Premises	3,202,068	2,758,300
Facilities and equipment		
Rental of equipment	323,197	279,069
	<b>3,525,265</b>	<b>3,037,369</b>
<b>34. Contracted Services</b>		
Meter Reading services	1,319,356	884,994
<b>35. Grants and subsidies paid</b>		
Other subsidies		
Indigents - Council contribution	9,365,512	5,077,331
Eskom Electrification Grant	-	278,155
	<b>9,365,512</b>	<b>5,355,486</b>

**Dihlabeng Local Municipality**  
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**Notes to the Annual Financial Statements**

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	2010	2009
<b>36. Bulk purchases</b>		
Electricity	56,866,979	43,164,578
<b>37. Cash generated from operations</b>		
(Deficit) surplus		
Adjustments for:		
Depreciation and amortisation	(41,789,285)	61,256,760
Loss on sale of assets and liabilities	31,438	31,438
Fair Value Adjustment - Game Stock	(10,251,726)	(161,673)
Fair value adjustment Investments	1,031,600	(542,225)
Finance costs - Finance leases	(30,845)	(43,438)
Interest income	37,774	13,209
Finance costs	(25,925)	(67,776)
Impairment deficit	6,278,232	11,051,650
Debt impairment	1,124,983	-
Movements in retirement benefit assets and liabilities	128,213,955	12,826,290
Movements in provisions	743,797	-
Changes in working capital:	9,632,455	2,020,636
Inventories		
Trade and other receivables from exchange transactions	2,032,409	(521,838)
Other receivables from non-exchange transactions	89,984,025	(51,338,914)
Consumer debtors	(1,671,590)	(604,382)
Prepayments	(128,213,955)	(12,826,290)
Trade and other payables from exchange transactions	(1,183,455)	189,822
VAT	23,841,728	7,626,732
Unspent conditional grants and receipts	11,233,933	(10,282,862)
	7,017,000	(2,245,975)
	<b>78,036,548</b>	<b>16,381,164</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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38. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure assets	56,201,765	2,892,506

This committed expenditure relates to infrastructure assets and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated.

The following contracts have already been awarded and the Municipality is committed on spending the remaining funds:

Project Number:	MIG/FS/R,ST/09/11.
Project Description:	Fateng-tse-Ntsho - Upgrading of gravel roads with storm water.
Project Value:	R 7 485 810
Remaining Funding:	R 3 031 391
Project Number:	MIG/FS0710/R,ST/09/13
Project Description:	Bohlokong / Bethlehem - New paved roads.
Project Value:	R40 000 000
Remaining Funding:	R33 770 188
Project Number:	MIG/FS/4568/08/09
Project Description:	Clarens - Waste water treatment works.
Project Value:	R12 000 000
Remaining Funding:	R 7 499 819
Project Number:	MB/RS/2009/02.03.05
Project Description:	Fateng-tse-Ntsho - Upgrading of internal roads.
Project Value:	R13 000 000
Remaining Funding:	R 5 269 941
Project Number:	
Project Description:	Clarens - Upgrading of internal roads.
Project Value:	R 3 000 000
Remaining Funding:	R 1 289 836
Project Number:	
Project Description:	Panorame East - Upgrading of roads.
Project Value:	R 2 000 000
Remaining Funding:	R 1 855 919
Project Number:	MIG/FS051/CF/07/08
Project Description:	Bohlokong - New community hall.
Project Value:	R26 000 000
Remaining Funding:	R 9 000 000
Project Number:	MIG/FS/0179/6/7
Project Description:	Mashaeng Fouriesburg - 2.7 km storm water disposal
Project Value:	R 1 017 398
Remaining Funding:	R 252 493
Project Number:	MIG/FS/R/5845/09/10
Project Description:	Dihlabeng Mautse - Upgrading of gravel road with storm water.
Project Value:	R 4 142 760
Remaining Funding:	R 4 142 760
Project Number:	
Project Description:	Rosenda! Mautse - Upgrading of boreholes and water treatment plant.
Project Value:	R 1 500 000
Remaining Funding:	R 1 500 000



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**38. Commitments (continued)**

Project Number:	
Project Description:	Mashaeng / Fouriesburg - abstraction of raw water.
Project Value:	R 3 000 000
Remaining Funding:	R 3 000 000
Project Number:	
Project Description:	Bohlokong - Upgrading of new tennis courts.
Project Value:	R 2 000 000
Remaining Funding:	R 2 000 000
Project Number:	
Project Description:	Mashaeng / Fouriesburg - Upgrading of roads.
Project Value:	R 2 000 000
Remaining Funding:	R 2 000 000

## Notes to the Annual Financial Statements

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### 39. Contingencies

The following civil cases are currently in process of being finalised:

**G D van Zyl:**

The case is handled by Breytenbach Mavuso Attorneys and is regarding the sale of a site in Fouriesburg to Mr van Zyl on the site a municipal pump station is erected and no servitude is registered. The liability could be R150 000.

**T D Lephondo:**

The case is handled by Breytenbach Mavuso Attorneys. Our application for a Court Order to reverse the Sale of the Property was successful. We are waiting for the Council to resell the property. No liability for Council.

**Thabo Mofutsanyana District Municipality:**

The case is handled by Breytenbach Mavuso Attorneys. We are acting for a lot of defendants against Thabo Mofutsanyana. In the trial case the Judge has given judgment against Thabo Mofutsanyana on our exception. They are now trying to appeal in this matter so we are waiting to see what will happen. No liability at this stage.

**Lezmin 1163 CC:**

The case is handled by Breytenbach Mavuso Attorneys and is regarding the erection of illegal structures. No liability for Council. The case is for a Court Order to demolish certain buildings

**LAK Investments:**

The case is handled by Breytenbach Mavuso Attorneys. This is a defended matter in which the Defendant wants to negotiate. We are waiting for dates to proceed with negotiations. No liability for Council.

**Makitikiti:**

The case is handled by Breytenbach Mavuso Attorneys. We are at this present time awaiting further instructions from client regarding the consultation between Dihlabeng Local Municipality and Mr Makitikiti. No liability for Council.

**Mr J Prinsloo (Electrician Section):**

The case is handled by Breytenbach Mavuso Attorneys. In this case the employee was injured on duty and the Department of Labour referred the matter to court to establish negligence. Liability can not be established.

**New Municipal Buildings:**

A building was purchased for R 14 000 000 to be used as Municipal Offices but due to contractual disagreements there is a possible liability of which the outcome can not be reliably determined.

**Katushya Security Services vs Dihlabeng Local Municipality:**

Naudes Attorneys, Bloemfontein handle the case on behalf of Council. Council awaits further documents in this regard. In this application the applicant did not render a proper security service and Council terminated the contract. Can not establish liability at this stage.

**South African Revenue Service (VAT):**

According to the records of SARS there is an amount due to them that amounts to R 7 860 499 in respect of VAT that was incorrectly claimed. The amount is being disputed and the outcome of the event can not be reliably determined.

## Notes to the Annual Financial Statements

Figures in Rand

2010

2009

### 40. Prior period errors

The effect of the prior period errors is disclosed in Annexure B.

### 41. Going concern

We draw attention to the fact that at 30 June 2010, the municipality had accumulated surplus of R545,422,565 and that the municipality's total assets exceed its liabilities by R545,422,565.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 42. Fruitless and wasteful expenditure

Employee Cost		
Interest paid on Bank Account / Creditors	-	90,761
Interest paid on Eskom account	299,082	904,800
Penalty Interest on Arrears on DBSA and INCA Loans	1,101,179	-
Penalties and Interest Paid on VAT	338,915	-
	282,097	-
	<b>2,021,273</b>	<b>995,561</b>

### 43. Irregular expenditure

Details of irregular expenditure – current year

	Effect on the Financial Statements	
Tenders for payments above R200 000 were not available for inspection.	Upgrading of Fateng Stadium is affecting additions to Community Assets Recreational Facilities.	9,181,132
Tenders for payments above R200 000 were not available for inspection.	Upgrading of Cemeteries is affecting additions to Community Assets Recreational Facilities.	4,439,640
Tenders for payments above R200 000 were not available for inspection.	Upgrade of Internal Roads in Fateng is affecting additions to Infrastructure Roads.	3,434,994
Tenders for payments above R200 000 were not available for inspection.	Unit stand and access card is affecting additions to Office Equipment.	475,000
Tenders for payments above R200 000 were not available for inspection.	Electronic rev.counter is affecting additions to Office Equipment.	289,754
Tenders for payments above R200 000 were not available for inspection.	Payment for services rendered in respect of the recovery of VAT not previously claimed is affecting Service Provider fees.	1,102,119
Tenders for payments above R200 000 were not available for inspection.	Upgrading of Roads in Clarens is affecting additions to Infrastructure Roads.	596,860
Tenders for payments above R200 000 were not available for inspection.	Upgrade of roads in Fouriesburg and Rehabilitation of Dumping sites is affecting Infrastructure Roads and Expenditure.	6,690,588
		<b>26,210,087</b>

### 44. Leases (Effects of transitional provisions)

In accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework, the municipality need not comply with the standard on Leases, until such time as the measurement period in the transitional provision for any of the following Standards of GRAP have expire:

- Construction Contracts
- Inventories
- Investment Property
- Property Plant and Equipments
- Provisions, Contingent Liabilities and Contingent Assets
- Agriculture
- Intangible Assets

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>45. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Opening balance	284,217	(101,541)
Current year subscription / fee	2,536,080	2,323,898
Amount paid - current year	(1,941,082)	(1,938,140)
	<b>879,215</b>	<b>284,217</b>
<b>PAYE and UIF</b>		
Current year subscription / fee	10,619,264	9,572,095
Amount paid - current year	(10,619,264)	(9,572,095)
	<b>-</b>	<b>-</b>
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	27,836,068	25,640,581
Amount paid - current year	(27,836,068)	(25,640,581)
	<b>-</b>	<b>-</b>
<b>VAT</b>		
VAT payable	13,085,561	1,851,628

VAT output payables and VAT input receivables are shown in note 15.

VAT returns have been submitted late throughout the year.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

2010

2009

### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2010:-

30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
D Stevens	5,996	2,388	8,384
HT Mofokeng	1,869	3,553	5,422
S Motsoeneng	1,872	36,079	37,951
AL Mashinini	2,506	38,978	41,484
E Mokoena	612	1,159	1,771
MS Maseko	1,191	5,137	6,328
J Tshabalala	817	1,633	2,450
G Mofokeng	731	1,846	2,577
BJ Mofokeng	2,440	8,207	10,647
P Jacobs	1,653	816	2,469
BDL Hatta	1,921	47,652	49,573
E Kongoana	988	22,314	23,302
S Mofokeng	1,016	16,145	17,161
S Msimanga	640	33	673
J Mofokeng	620	1,393	2,013
MD Bukhali	382	8,497	8,879
P Changube	656	4,357	5,013
LJ Wanzi	782	1,828	2,610
L Lemako	598	469	1,067
E Mkhwanazi	4,521	16	4,537
J Mashinini	1,516	10,714	12,230
LJ Lemako	2,923	3,084	6,007
	<b>36,250</b>	<b>216,298</b>	<b>252,548</b>
30 June 2009	Outstanding less than 90 days	Outstanding more than 90 days	Total
NC Bukhali	1,230	2,992	4,222
MH Mofokeng	640	751	1,391
HE Mokoena	882	697	1,579
BDL Hatla	1,966	40,264	42,230
MS Maseko	1,377	11,790	13,167
RP Mofokeng	1,070	11,812	12,882
VD Mzizi	4,983	48,679	53,662
S Msimanga	651	885	1,536
MJ Tshabalala	1,115	3,015	4,130
SE Mosia	830	16,805	17,635
MA Mokoena	1,530	365	1,895
CP Changube	568	1,890	2,458
MK Mofokeng	11,778	38,856	50,634
	<b>28,620</b>	<b>178,801</b>	<b>207,421</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>45. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
During the year the following Councillors' had arrear accounts outstanding for more than 90 days.		
<b>30 June 2010</b>	<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
BDL Hatta	49,573	120
AL Mashinini	41,484	120
S Motsoeneng	37,951	120
EST Kongoana	23,302	120
S Mofokeng	17,161	120
J Mashinini	12,230	120
BJ Mofokeng	10,647	120
MD Bukhali	8,879	120
D Stevens	8,384	
M Maseko	6,328	120
LJ Lemako	6,007	120
HT Mofokeng	5,422	120
P Changube	5,013	120
E Mkhwanazi	4,537	90
LJ Wanzi	2,610	120
GEO Mofokeng	2,577	120
P Jacobs	2,469	120
J Tshabalala	2,450	120
J Mofokeng	2,013	120
E Mokoena	1,771	120
L Lemako	1,067	120
S Msimanga	673	90
	<b>252,548</b>	<b>(180)</b>
<b>30 June 2009</b>	<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
VD Mzizi	53,662	-
MK Mofokeng	50,634	-
MJ Hatta	42,231	-
SE Mosia	17,636	-
MS Maseko	13,167	-
RP Mofokeng	12,882	-
NC Bukhali	4,223	-
MJ Tshabalala	4,130	-
CP Changube	2,459	-
MA Mokoena	1,895	-
HE Mokoena	1,579	-
S Msimanga	1,536	-
MH Mofokeng	1,391	-
	<b>207,425</b>	<b>-</b>

**Appendice's A to G**

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TRADE RECEIVABLES FOR THE YEAR ENDED 30 JUNE 2010

APPENDIX A

Service Debtors Per Service	CURRENT	30 DAYS	60 DAYS	90 + DAYS	NET	Provision for Doubtful Debits	Total
<b>Rates</b>							
Electricity	4,256,289	2,258,129	1,788,076	25,393,695	34,704,190	-20,197,009	14,507,182
Water	5,448,401	1,983,501	924,601	6,518,492	14,872,935	-8,655,692	6,217,243
Sewerage	2,183,731	1,788,607	1,812,501	35,075,024	40,850,063	-23,779,579	17,080,484
Refuse	2,229,293	1,759,996	1,256,535	25,583,698	31,829,523	-18,524,021	13,305,502
Other	1,952,001	1,503,362	1,400,839	29,672,597	34,528,789	-20,094,929	14,433,860
	1,450,372	1,776,901	1,387,185	33,610,103	39,224,591	-22,246,780	16,978,781
<b>Totals</b>	<b>17,520,087</b>	<b>11,070,697</b>	<b>8,569,737</b>	<b>178,609,306</b>	<b>195,020,061</b>	<b>-113,497,009</b>	<b>81,523,052</b>
<b>Rates: Ageing</b>							
Current (0 - 30 Days)							
31 - 60 Days							
61 - 90 Days							
90 + Days							
<b>Electricity: Ageing</b>							
Current (0 - 30 Days)							
31 - 60 Days							
61 - 90 Days							
90 + Days							
<b>Water: Ageing</b>							
Current (0 - 30 Days)							
31 - 60 Days							
61 - 90 Days							
90 + Days							
<b>Sewerage: Ageing</b>							
Current (0 - 30 Days)							
31 - 60 Days							
61 - 90 Days							
90 + Days							





TRADE RECEIVABLES FOR THE YEAR ENDED 30 JUNE 2009

APPENDIX A

Service Debtors Per Service		CURRENT	30 DAYS	60 DAYS	90 + DAYS	NET	Provision for Doubtful Debts	Total
Rates								
Electricity		3,412,243	1,041,664	741,270	23,051,935	28,247,113	-2,704,662	25,542,450
Water		5,936,729	892,403	549,480	4,429,997	11,808,679	-519,766	11,288,913
Sewerage		2,166,426	886,169	709,690	29,751,868	33,516,154	-3,490,769	30,025,385
Refuse		1,840,599	911,467	784,975	22,930,808	26,467,849	-2,690,450	23,777,398
Other		1,236,494	811,538	740,131	22,719,815	25,508,977	-2,665,577	22,843,400
		1,343,637	1,561,623	1,225,797	37,162,140	41,293,407	-4,360,200	36,933,208
Totals		15,936,128	6,107,144	4,731,344	140,045,563	166,840,178	-16,431,416	150,408,762
Rates, Ageing								
Current (0 - 30 Days)								
31 - 60 Days						3,412,243	0	3,403,002
61 - 90 Days						1,041,664	0	1,041,664
90 + Days						741,270	0	741,270
Total						23,051,836	-2,704,662	20,347,173
Electricity, Ageing								
Current (0 - 30 Days)								
31 - 60 Days						5,936,729	0	5,323,331
61 - 90 Days						892,483	0	892,483
90 + Days						549,490	0	549,490
Total						4,429,997	-519,766	3,910,220
Water, Ageing								
Current (0 - 30 Days)								
31 - 60 Days						2,166,428	0	2,153,776
61 - 90 Days						886,169	0	886,169
90 + Days						709,690	0	709,690
Total						29,751,850	-3,490,769	26,261,080
Sewerage, Ageing								
Current (0 - 30 Days)								
31 - 60 Days						33,516,154	-3,490,769	30,025,385
61 - 90 Days						1,840,599	0	1,840,599
90 + Days						911,467	0	911,467
Total						22,930,800	-2,690,450	20,240,350
Total						26,467,849	-2,690,450	23,777,398

TRADE RECEIVABLES FOR THE YEAR ENDED 30 JUNE 2009

TRADE RECEIVABLES (CONTINUED)

APPENDIX A

Refuse: Ageing			
Current (0 - 30 Days)			
31 - 60 Days	1,235,494	0	1,234,734
61 - 90 Days	811,538	0	811,538
90 + Days	740,131	0	740,131
Total	22,719,815	-2,655,577	20,053,237
Refuse: Other	25,503,977	-2,665,577	22,839,640
Current (0 - 30 Days)			
31 - 60 Days	1,343,637	0	1,206,437
61 - 90 Days	1,561,823	0	1,561,823
90 + Days	1,225,787	0	1,225,787
Total	37,162,149	-4,360,200	32,801,949
Summary of Debtors by Customer Classification	41,293,407	-4,360,200	36,796,006

Consumers / Industrial / Commercial

Current (0 - 30 Days)			
31 - 60 Days	15,150,458		
61 - 90 Days	5,875,877		
90 + Days	4,591,242		
	131,451,328		
Less: Provision for Doubtful Debts	156,671,903		
Total	-19,431,416		
National and Provincial Government			
Current (0 - 30 Days)			
31 - 60 Days	789,871		
61 - 90 Days	431,287		
90 + Days	357,101		
	8,594,236		
Less: Provision for Doubtful Debts	10,160,275		
Total	0		
Total Debtors	10,168,275		
Less: Provision for Doubtful Debts	166,840,178		
Add: Unreconciled difference between the Debtors Age Analysis and the Debtors Control Account	-16,431,416		
Add: Water and Electricity consumed in June only billed in July not included in the debtors age analysis	2,908,720		
Balance	6,556,002		
	159,873,404		

# DIHLABENG LOCAL MUNICIPALITY

## Appendix B

### CORRECTION OF ERROR NOTE 40

2010

2009

1

Transaction relating to the previous reporting period were re-stated as a result of information that became available after the reporting period. The effect of the transactions are as follows:

The comparative amount for the 2009 year has been restated as follows:

Increase in Accumulated Surplus	-5,635,305
Transactions were posted directly into surplus that relates to the 2008 financial year.	
Increase in Long-term Liabilities	-1,352,835
Long-term liabilities were incorrectly disclosed and accounted for in the prior year.	
Increase in Unspent Conditional Grants	-2,699,000
Conditional Grant were incorrectly recognised as Revenue in the prior year.	
Increase in Accounts Payable	-1,958,046
Creditors as at year end were not provided for in the prior year.	
Increase in Input VAT	4,142,767
VAT on expenditure were not claimed as Input VAT in the prior year.	
Decrease in Grants	3,026,134
The balance of Government Grants as previously reported did not have any substance and the balance was written off.	
Increase in Property, Plant and Equipment	1,995,353
Assets purchased in the prior financial period were not capitalised in the prior year.	
Increase in Investments	14,358
Subsequent information became available about the fair value of investments and investments were adjusted with the increase in the fair value.	
Decrease in Inventory	-111,563
Expenditure in the prior year were incorrectly allocated to inventory.	
Decrease in Provisions	315,500
A provision for legal fees were provided for in the 2008 financial year but the conditions were never met and it was reversed.	
Increase in Trade and Other Receivables	232,797
Other Receivables were previously not recorded.	
Net effect on Statement of Financial Position	<u>-2,029,840</u>
Decrease in Bulk Purchases	-783,583
Bulk Purchased incorrectly accounted for in the prior year.	
Decrease in Capital Expenditure	-2,196,577
Misallocation of Assets to be capitalised and other expenditure.	
Decrease in Employee Cost	-88,570
Employee Cost incorrectly accounted for in the prior year.	
Increase in Fair Value Adjustment - Investments	-14,033
Subsequent information became available and the fair value of investments were adjusted.	
Increase in Finance Costs	2,706,701
Finance Costs on Long-term Liabilities incorrectly accounted for in the prior year.	
Decrease in General Expenditure	-457,426
General expenditure incorrectly accounted for in the prior year.	
Decrease in Grant Receipts	2,889,025
Reversal of Conditional Grant Receipts incorrectly accounted for as Revenue in the prior year.	
Increase in Other Income	-1,100
Other Income incorrectly accounted for in the prior year.	
Decrease in Repairs and Maintenance	-24,597
Repairs and Maintenance incorrectly accounted for in the prior year.	
Net effect on surplus/(deficit) for the year	<u>2,029,840</u>
Net effect on Accumulated surplus opening balance	<u>2,029,840</u>
Cash Flow from Operating Activities	2,029,840
Cash Flow from Investing Activities	2,009,711
Cash Flow from Financing Activities	-6,988,140
Net effect on Cash Flow	<u>-2,948,589</u>

# DIHLABENG LOCAL MUNICIPALITY

## Appendix B

### CORRECTION OF ERROR NOTE 40

2

2010

2009

An actuarial valuation was performed for the first time and the post-retirement medical aid contributions were accounted for.

The comparative amount has been restated as follows in the 2009 Financial Year:

Increase in Post-Retirement Medical Aid Benefit

Decrease in Accumulated Surplus

-20,656,529

20,656,529

Net effect on surplus/(deficit) for the year

0

APPENDIX C: SCHEDULE OF LONG TERM LIABILITIES AS AT 30 JUNE 2010

EXTERNAL LOANS	Interest Rate	Loan No.	Redeemable	Balance at 30/06/2009	Received during year	Redeemed or written off during year	Balance at 30/06/2010
				R	R		R
LONG TERM LOANS							
LOANS :							
DBSA	5.00%	102 229/1	31-Mar-11	3,942,089	-	2,741,667	1,200,422
DBSA	14.50%	100 347/2	31-Mar-21	35,201,614	-	1,517,766	33,683,848
INCA Sanlam	14.52%	1264		4,266,653	-	832,630	3,434,023
INCA - PIC	14.00%	2813		1,846,104	-	324,798	1,521,306
Total long term loans				45,256,460	0	5,416,861	39,839,599

DIHLABENG LOCAL MUNICIPALITY  
APPENDIX D: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010

	Cost/Revaluation				Accumulated Depreciation			Carrying Value
	Opening Balance	Other changes or movements	Additions	Fair Value Adjustments	Closing Balance	Opening Balance	Closing Balance	
<b>Infrastructure</b>								
Airports	624,542	0	0	0	624,542	0	0	624,542
Electricity	42,119,849	0	91,099	0	42,210,948	0	0	42,210,948
Pedestrian Malls	9,701,631	0	0	0	9,701,631	0	0	9,701,631
Roads	93,851,106	-431,000	21,994,111	0	115,514,217	0	0	115,514,217
Security Measures	2,196,427	0	132,777	0	2,329,204	0	0	2,329,204
Sewerage	69,135,511	0	3,516,538	0	72,652,049	0	0	72,652,049
Water	101,765,588	1,003,309	321,644	0	103,090,541	0	0	103,090,541
	319,494,654	572,309	25,055,159	0	346,123,132	0	0	346,123,132
<b>Community Assets</b>								
Buildings Community	0	0	0	0	0	0	0	0
Land	177,347,732	0	59,592	0	177,407,324	0	0	177,407,324
Recreational Facilities	10,437,362	0	13,627,611	0	24,064,973	0	0	24,064,973
	187,785,094	0	13,687,203	0	201,472,297	0	0	201,472,297
<b>Investment Properties</b>								
Land	0	0	0	0	0	0	0	0
	6,403,662	0	0	0	6,403,662	0	0	6,403,662
<b>Other Assets</b>								
Aircraft	3,850	0	0	0	3,850	0	0	3,850
Bins and Containers	3,779,979	0	0	0	3,779,979	0	0	3,779,979
Buildings Community	11,917,358	0	0	0	11,917,358	0	0	11,917,358
Buildings Other	17,521,253	0	7,513,380	0	25,034,633	0	0	25,034,633
Emergency Equipment	119,596	0	609,531	0	729,127	0	0	729,127
Furniture and Equipment	2,212,462	0	58,500	0	2,270,962	0	0	2,270,962
Game Stock	2,477,400	0	332,547	0	2,809,947	0	0	2,809,947
Land	0	0	0	-1,031,600	-1,031,600	0	0	-1,031,600
Motor Vehicles	16,191,046	0	0	0	16,191,046	0	0	16,191,046
Office Equipment - Leased	594,714	0	0	0	594,714	0	0	594,714
Office Equipment	7,990,293	0	1,818,176	0	9,808,469	-516,107	-31,438	9,292,362
Plant And Equipment	10,311,905	0	5,639,764	0	15,951,669	0	0	15,951,669
Recreational Facilities	0	0	0	0	0	0	0	0
Roads	0	0	0	0	0	0	0	0
Security Measures	0	0	0	0	0	0	0	0
Sewerage	0	0	0	0	0	0	0	0
Water	0	0	0	0	0	0	0	0
Watercraft	0	0	0	0	0	0	0	0
	73,119,956	0	15,971,898	-1,031,600	88,060,254	-516,107	-31,438	87,512,609
<b>Total</b>	586,803,266	572,309	55,715,270	-1,031,600	642,059,245	-516,107	-31,438	641,511,700

**DHILABENG LOCAL MUNICIPALITY**  
**APPENDIX E: SEGMENTAL ANALYSIS OF FIXED ASSETS AS ON 30 JUNE 2010**

SERVICE	COST					Accumulated Depreciation		
	BUDGET 2010	Opening Balance	Additions	Closing Balance	Opening Balance	Depreciation	Closing Balance	Carrying Value 30-Jun-10
AERODROME	143,496	515,044	11,284,86	526,338,93	-	-	-	526,339
AMBULANCE	-	6,459	-	6,459,05	-	-	-	6,459
ASSESSMENT RATES	-	167,617,941	-	167,617,941,11	-	-	-	167,617,941
BILLING OFFICE	45,250	526,283	-	526,282,77	-	-	-	526,283
CEMETERY	895,073	1,733,532	4,439,639,54	6,173,171,80	-	-	-	6,173,172
CLARENS UNIT	1,101,727	756,734	18,330,35	775,064,37	-	-	-	775,064
CLEANSING SERVICES	-	8,825,876	-	8,825,075,50	-	-	-	8,825,876
CIVIL ENGINEERING ROAD	47,358,017	-	292,047,39	292,047,39	-	-	-	292,047
CIVIL ENGINEERING SEWERAGE	-	-	197,500,10	197,500,10	-	-	-	197,500
CIVIL ENGINEERING WATER	(12,250,507)	-	168,564,00	168,564,00	-	-	-	168,564
COMMUNITY DEVELOPMENT	4,900,311	-	291,118,29	291,118,29	-	-	-	291,118
COUNCIL'S GENERAL EXPENDITURE	-	-	8,252,40	1,359,641,84	-	-	-	1,359,642
CRECHE	740,359	252,859	-	144,667,82	-	-	-	144,668
DISASTER MANAGEMENT	(23,487)	1,359,642	-	967,859,44	-	-	-	967,859
ELECTRICITY SUPPLY	1,168,702	46,664,669	199,626,10	47,164,295,27	-	-	-	47,164,295
ENVIRONMENTAL HEALTH	-	-	-	-	-	-	-	-
FINANCE	(31,404,727)	-	-	-	-	-	-	-
FIRE SERVICES	(67,600,355)	8,371,966	102,755,04	8,474,724,11	(510,107)	-31,438	(517,545)	7,927,176
FOURIESBURG UNIT	6,152,855	1,690,554	36,000,10	1,726,554,18	-	-	-	1,726,554
HEALTH SERVICES - GENERAL	(2,760,820)	613,540	15,908,39	629,448,71	-	-	-	629,449
HOUSING	2,126,443	1,084,675	-	124,331,77	-	-	-	124,332
HOUSING - PERSONNEL OWELLINGS	-	2,196,432	-	1,084,674,77	-	-	-	1,084,675
HUMAN RESOURCES	-	441,072	537,073,43	2,196,431,56	-	-	-	2,196,432
IDP	(1,499,909)	-	-	978,145,31	-	-	-	978,145
IKGATHOLLENG RESORT	154,725,9	745,280	-	745,279,71	-	-	-	745,280
INDUSTRIAL AREA	129,356	6,121,877	-	6,121,877,40	-	-	-	6,121,877
INFORMATION MANAGEMENT	-	-	98,804,47	98,804,47	-	-	-	98,804
INFORMATION TECHNOLOGY	-	-	658,117,30	829,520,46	-	-	-	829,520
INTERNAL AUDIT	2,581,875	161,403	-	122,217,74	-	-	-	122,218
INTERSHIP PROGRAMME	1,895,030	14,220	-	14,219,52	-	-	-	14,220
LAND & HOUSING ADMINISTRATION	407,508	-	-	-	-	-	-	-
LEO ADMIN	2,016,501	-	-	-	-	-	-	-
LEO COMM & MARKETING	1,250,000	-	-	-	-	-	-	-
LEO OTHER	3,165,919	-	-	-	-	-	-	-
LED AGRICULTURE	450,862	-	-	-	-	-	-	-
LIBRARY	2,015,444	478,121	21,419,00	499,540,02	-	-	-	499,540
MARKETING & DEVELOPMENT	-	-	12,038,00	12,038,00	-	-	-	12,038
MAYOR	-	407,133	37,277,52	444,410,30	-	-	-	444,410
MECHANICAL WORKSHOP	8,167,407	52,543	-	52,543,00	-	-	-	52,543
MUN BUILDINGS - NEW OFFICES	6,510,566	302,222	-	302,222,24	-	-	-	302,222
MUN BUILDINGS - TOWN HALL AND	-	4,106,287	8,771,05	4,115,057,78	-	-	-	4,115,058
MUNICIPAL BUILDINGS: MARKET	(1,463,175)	449,458	8,295,00	457,752,53	-	-	-	457,753
MUNICIPAL BUILDINGS - TAXI TER	-	12,040,529	8,477,971,41	20,518,499,97	-	-	-	20,518,500
MUN BUILDINGS : HOUSING & FLATS	13,028	2,610	-	2,610,00	-	-	-	2,610
	3,920,768	630	-	630,00	-	-	-	630



**DIHLABENG LOCAL MUNICIPALITY**  
**APPENDIX E: SEGMENTAL ANALYSIS OF FIXED ASSETS AS ON 30 JUNE 2010**

SERVICE	BUDGET 2010	COST				Accumulated Depreciation		
		Opening Balance	Additions	Closing Balance	Opening Balance	Depreciation	Closing Balance	Carrying Value 30-Jun-10
MUNICIPAL MANAGER	4,000,000	621,457	139,345.43	760,801.94	-	-	-	760,802
MUNICIPAL MANAGER ADMINISTRATION	14,389	-	475,000.00	475,000.00	-	-	-	475,000
MUSEUM	870,787	9,347	-	9,347.44	-	-	-	9,347
NATURE AND ENVIRONMENTAL ADMIN	30,103,626	2,174,421	-	2,174,420.81	-	-	-	2,174,421
PAUL ROUX UNIT	(440,764)	8,322,478	43,518.00	8,365,996.24	-	-	-	8,365,996
PAYROLL	1	181,227	30,379.59	211,606.30	-	-	-	211,606
PLANNING	-	-	-	-	-	-	-	-
PLANNING & CONTROL (IDP)	-	13,762	-	13,762.42	-	-	-	-
POUNDS	-	28,512	8,361.40	36,873.45	-	-	-	13,762
PRETORIUS KLOOF	-	5,965	-	5,964.91	-	-	-	36,873
PRIMARY HEALTH CARE	458,561	160,968	-	160,967.85	-	-	-	5,965
PROJECT MANAGEMENT	-	5,143,939	-	5,143,939.22	-	-	-	160,968
PUBLIC WORKS	148,973	5,087	-	5,086.84	-	-	-	5,143,939
ROSENDAL UNIT	2,282,424	33,259,284	91,245.35	33,349,529.50	-	-	-	5,087
SECRETARIAT	3,706,180	26,112	54,173.53	80,285.57	-	-	-	33,349,530
SEWERAGE SERVICES	(926,305)	601,312	28,974.00	628,285.23	-	-	-	80,285
SHOWGROUND	-	74,670,491	3,262,373.32	77,932,864.14	-	-	-	77,932,864
SOLID WASTE MANAGEMENT	-	202,516	-	202,516.38	-	-	-	202,516
SPEAKER	(13,800,655)	1,433,573	11,697.40	1,445,270.93	-	-	-	1,445,271
SPEAKER'S OFFICE	-	136,170	5,769.47	141,939.84	-	-	-	141,940
SPORT & RECREATION	1,605,055	5,869	-	5,868.67	-	-	-	5,869
SPORTS GROUNDS	4,871,755	604,568	-	604,568.19	-	-	-	604,568
STATEMENT OF FINANCIAL PERFORMANCE	-	4,570,778	9,181,132.49	13,751,908.73	-	-	-	13,751,909
STORES	1,365,568	-	-	-	-	-	-	-
STREET BUILDING AND MISC SERVI	-	319,555	-	319,554.79	-	-	-	319,555
SUB-ECONOMIC HOUSING - OWELLIN	-	65,250,976	24,308,329.76	89,557,305.89	-	-	-	89,557,306
SUB-ECONOMIC HOUSING - FLATS	-	3,611,033	-	3,611,032.97	-	-	-	3,611,033
SUPPLY CHAIN MANAGEMENT	-	3,149,555	-	3,149,554.94	-	-	-	3,149,555
SUPPORT SERVICES	-	392	-	391.63	-	-	-	392
SWIMMING BATH	-	182,759.44	-	182,759.44	-	-	-	182,759
TOWN HALL & OFFICES	275,341	34,440	1,872.65	36,113.04	-	-	-	36,113
TOWN PLANNING	4,291,466	864,923	-	864,923.16	-	-	-	864,923
TRAFFIC	-	-	-	-	-	-	-	-
WATER SERVICES	7,003,515	2,772,086	65,854.32	2,937,940.47	-	-	-	2,937,940
TOTAL FIXED ASSETS	25,168,070.00	101,992,440	2,458,862.41	104,451,302.05	-	-	-	104,451,302
		579,392,766	55,715,274	635,108,040	(516,107)	(31,430)	(647,545)	634,600,854

DIHLABENG LOCAL MUNICIPALITY

APPENDIX F: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

2009 ACTUAL INCOME R	2009 ACTUAL EXPENDITURE R	2009 SURPLUS/ (DEFICIT) R	SERVICE	2010 ACTUAL INCOME R	2010 ACTUAL EXPENDITURE R	2010 SURPLUS/ (DEFICIT) R
0	8,870,078	-8,870,078	MAYORAL OFFICE ADMINISTRATION	0	4,690,433	-4,690,433
0	8,816,663	-8,816,663	Mayors Office	0	4,690,433	-4,690,433
0	53,414	-53,414	Community Development	0	0	0
70,270,865	22,555,408	47,715,457	FINANCIAL SERVICES	63,028,677	122,277,406	-59,248,728
0	927,406	-927,406	Financial Services Administration	0	3,337,725	-3,337,725
69,770,865	21,411,200	48,359,665	Finance General	62,278,677	113,181,324	-50,902,647
0	1,372,366	-1,372,366	Billing Office	0	2,525,608	-2,525,608
0	1,780,930	-1,780,930	Supply Chain Management	0	2,658,072	-2,658,072
500,000	-2,936,494	3,436,494	Internship	750,000	574,676	175,324
-5,942	5,340,013	-5,345,955	LOCAL ECON. DEVELOPMENT	31,065	5,456,962	-5,425,918
0	988,120	-988,120	LED. Administration	0	1,561,339	-1,561,339
-5,942	772,005	-777,947	LED. Agriculture	31,065	395,969	-364,904
0	3,579,888	-3,579,888	LED. General	0	3,058,312	-3,058,312
0	0	0	LED Comm & Marketing	0	441,362	-441,362
0	0	0	LED Econ. Development	0	0	0
1,982,339	15,592,205	-13,609,866	CORPORATE SERVICES	4,420,513	10,887,097	-6,466,584
0	999,700	-999,700	Corporate Services Administration	0	2,148,434	-2,148,434
1,442	4,499,658	-4,498,216	Secretariat	1,663,286	-1,007,890	2,671,178
0	1,988,237	-1,988,237	Human Resources	585,258	2,646,880	-2,061,622
0	6,189,183	-6,189,183	Support Services	0	6,454,097	-6,454,097
520	13,438	-12,918	Museum	1,937	2,344	-407
1,357,229	505,761	851,468	Mun. Buildings : Housing & Flats	1,504,898	168,225	1,336,673
509,094	972,213	-463,120	Mun. Buildings : TH & Offices	560,063	11,372	548,691
81,580	1,030	80,550	Taxi Terminal	82,981	1,052	81,929
32,474	1,101	31,372	Creche	42,091	1,033	41,057
0	421,884	-421,884	Pay roll	0	463,551	-463,551
44,316,480	39,611,135	4,505,345	COMMUNITY SERVICES ADMINISTRATION	29,283,199	23,180,852	8,102,347
0	2,753,237	-2,753,237	Statement of Financial Performance	0	2,383,924	-2,383,924
0	2,109,842	-2,109,842	Disaster Management	0	373,667	-373,667
24,520	1,599,852	-1,575,332	Library Services	17,201	1,433,573	-1,416,372
3,880	3,086,288	-3,082,408	Fire Fighting	179,444	3,364,477	-3,185,033
584,978	3,922,168	-3,337,190	Traffic Services	312,002	5,586,919	-5,274,917
2,277	5,240,638	-5,238,361	Parks	122,846	-34,737	157,583
43,262	3,827,829	-3,784,567	Sport & Recreation	69,867	0	69,867
1,028,205	1,061,354	-33,149	Nature Reserve	-610,833	591,493	-1,202,326
35,597	303,692	-268,095	Pretorius Kloof	41,779	334,814	-293,035
13,234	278,615	-265,380	Swimming Baths	3,467	0	3,467
605,364	1,462,863	-857,499	Cemeteries	586,456	-343,370	929,826
0	25,465	-25,465	Ikgatholleng Resort	0	3,649	-3,649
41,975,162	14,139,492	27,835,671	Solid Waste Management	28,560,969	9,486,441	19,074,528

**OHLABENG LOCAL MUNICIPALITY**

**APPENDIX F: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010**

2009 ACTUAL INCOME R	2009 ACTUAL EXPENDITURE R	2009 SURPLUS/ (DEFICIT) R	SERVICE	2010 ACTUAL INCOME R	2010 ACTUAL EXPENDITURE R	2010 SURPLUS/ (DEFICIT) R
-1,432,158	30,142,583	-31,574,741	MUNICIPAL MANAGER ADMINISTRATION	68,516,895	117,135,842	-48,618,948
0	6,449,601	-6,449,601	Municipal Manager Administration	0	16,331,877	-16,331,877
0	594,755	-594,755	Information Management	0	1,356,385	-1,356,385
0	2,036,528	-2,036,528	Internal Audit	0	3,029,482	-3,029,482
0	1,291,388	-1,291,388	Idp	0	1,057,655	-1,057,655
69,216	3,239,425	-3,170,209	Fouriesburg - Unit	155,481	4,149,420	-3,993,939
1,332,287	2,950,318	-1,618,031	Paul roux - Unit	1,381,462	3,142,221	-1,760,758
0	4,536,851	-4,536,851	Clarens - Unit	0	4,736,555	-4,736,555
98,414	4,407,416	-4,309,002	Rosendal - Unit	78,740	5,001,453	-4,922,714
-2,699,000	4,519,480	-7,218,480	Civil Engineering Roads	30,450,000	25,463,545	4,986,455
0	1,322	-1,322	Mechanical Engineering	0	5,917,718	-6,917,718
0	0	0	Civil Engineering Sewerage	16,200,450	9,445,149	6,755,300
-233,075	115,499	-348,574	Civil Engineering Water	0	9,329,248	-9,329,248
0	0	0	Parks	0	4,896,342	-4,896,342
0	0	0	Swimming Baths	0	267,992	-267,992
0	0	0	Sport & Recreation	0	4,404,017	-4,404,017
0	0	0	Cemeteries	0	1,619,462	-1,619,462
0	0	0	Solid Waste Management	20,250,582	13,363,513	8,887,049
0	0	0	Secretariat	0	2,823,608	-2,823,608
180,212,460	110,788,094	69,504,366	PUBLIC WORKS SERVICES	159,453,103	72,065,787	87,387,316
294,885	3,078,806	-2,783,923	Public Works Administration	287,002	2,168,810	-1,879,807
0	2,220,789	-2,220,789	Project Management	0	-469,346	469,346
32,044	2,161,428	-2,129,384	Town Planning	27,574	3,563,469	-3,555,895
12,518	17,486,979	-17,474,461	Civil Engineering Roads	19,258	-870,571	889,840
157,057	83,797	73,260	Aerodrome	187,522	9,235	158,287
4,190	3,993,013	-3,988,823	Mechanical Engineering	1,210	-113,817	115,027
84,857,222	56,636,585	28,220,637	Electrical Engineering	95,042,637	67,480,517	27,562,021
64,704,559	11,529,504	53,175,055	Civil Engineering Sewerage	30,609,918	-540,666	31,150,585
30,149,985	13,517,190	16,632,794	Civil Engineering Water	33,066,641	-78,455	33,145,097
0	0	0	Land & Housing General	231,329	888,513	-657,183
27,652,107	22,484,990	5,167,117	SPEAKERS OFFICE ADMINISTRATION	45,963,222	57,452,163	-11,488,941
0	2,747,661	-2,747,661	Speakers Office	0	1,903,315	-1,903,315
27,652,107	19,737,328	7,914,779	Councillors	45,963,222	55,548,849	-9,585,627
211,242	6,446,129	-6,234,888	LAND & HOUSING	417,753	-232,852	650,604
5,281	135,295	-130,014	Land & Housing Administration	64,091	0	64,091
205,960	6,310,835	-6,104,874	Land & Housing	353,661	-232,852	586,513
323,207,392	261,950,634	61,256,759	Total	371,114,227	412,903,512	-41,789,284

## PHILADELPHIA MUNICIPALITY

APPENDIX G : DISCLOSURE OF GRANTS AND SUBSIDIES IN TERM OF SECTION 123 OF MFINA 56 OF 2003

NAME OF GRANT	NAME OF ORGAN OF STATE	QUARTERLY RECEIPTS				QUARTERLY EXPENDITURE				REASON FOR GRANT	REASON FOR DELAY / WITHHOLDING OF FUNDS	COMPLIANCE WITH THE GRANT CONDITIONS IN TERMS OF GRANT FRAMEWORK	REASON FOR NON-COMPLIANCE
		SEPT.	DEC.	MARCH	JUNE	SEPT.	DEC.	MARCH	JUNE				
1) MISG Grant	NG		10,581,000.00	10,680,054.10	4,567,054.40	30,054,000.00	8,450,034.20	11,568,845.10	12,970,774.70	3,093,000.00			
2) MISG Grant	NG		500,000.00						400,000.00				
3) FMG	NG			700,000.00		2,000,400.00	46,171.00	198,275.89	180,864.04	723,111.41			
4) Equitable Share	NG		33,384,013.00	28,716,234.00	18,888,261.00	2,000,400.00	31,304,043.00	28,716,234.00	18,888,261.00	7,000,100.20			
			44,776,843.00	39,396,288.10	23,333,015.40	12,660,800.00	41,808,289.09	38,461,302.99	32,422,048.74	5,970,231.91			